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Report of the  
**Auditor General  
of Canada**  
to the House of Commons

Foreword and Main Points  
Other Audit Observations

**April 1999**



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Auditor General  
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*This April 1999 Report comprises 10 chapters as well as a Foreword, Main Points and Other Audit Observations. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 1999 to the House of Commons, to be laid before the House in accordance with the provisions of section 7(5) of the *Auditor General Act*.

A handwritten signature in dark ink, reading "L. Denis Desautels".

L. Denis Desautels, FCA  
Auditor General of Canada

OTTAWA, 20 April 1999



**April 1999**

Foreword and Main Points  
Other Audit Observations



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# Report of the Auditor General to the House of Commons for April 1999

## Foreword

I am pleased to present the April volume of my 1999 Report. Bound with this Foreword are the Main Points of 10 separately issued chapters:

1. Correctional Service Canada – Reintegration of Offenders
2. Revenue Canada – Underground Economy Initiative
3. Statistics Canada – Managing the Quality of Statistics
4. Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner
5. Collaborative Arrangements: Issues for the Federal Government
6. Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities
7. The Atlantic Groundfish Strategy: Contributions and Grants
8. The Atlantic Groundfish Strategy: Follow-up
9. Management of Science and Technology Personnel: Follow-up
10. Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up

The Main Points are followed by an audit observation on the roles of National Defence and Health Canada in the pre-licensing use of an anti-malarial drug. (Audit observations are specific matters that come to our attention during our financial and compliance audits of the Public Accounts of Canada and that we believe should be brought to Parliament's attention.)

In last December's "Matters of Special Importance – 1998" I noted that in moving from a traditional bureaucratic model to more flexible forms of management, the government needed to keep its focus on serving the public interest, achieving objectives, ensuring accountability and maintaining transparency. Directly or indirectly, the chapters in this volume touch on all of these issues.

In particular, we note that they are basic elements of collaborative arrangements. Given the government's increasing use of these arrangements to deliver services and programs, we have set out a framework for assessing them. We looked at two such arrangements that are still in their early stages, and have suggested some improvements that can be made now to head off potential problems in the future.

We also report on several issues that we have covered in previous reports. In some cases, the government has taken action to improve its performance and has made good progress. In other areas it still has some distance to go. The ability to build on lessons learned from past experience and from other jurisdictions emerges throughout the Report as a key factor in getting the most for the taxpayer's dollar.





# Correctional Service Canada

## Reintegration of Offenders

### Chapter 1 – Main Points

**1.1** Correctional Service Canada has made a concerted effort to respond to our 1994 and 1996 observations concerning the management of its offender reintegration activities. However, there are some important areas that require further improvement.

**1.2** The Service is now moving in the right direction. It has recently implemented change initiatives in several areas. Among them, it has strengthened the ability of national headquarters to direct and co-ordinate offender reintegration activities Service-wide; implemented a major initiative to streamline its reintegration operations; achieved international recognition for some of its offender rehabilitation programs; and improved its ability to measure the results and performance of its reintegration activities.

**1.3** Progress notwithstanding, improvement is still needed in some key areas:

- more timely acquisition of official documents for initial offender assessment;
- more timely casework preparation to meet the offender's first parole date;
- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and
- improved adherence to national standards for frequency of contact with offenders in the community.

#### Background and other observations

**1.4** Correctional Service has as one of its main responsibilities the safe reintegration of offenders into the community. This entails assessing offender risk and needs; preparing the offender for release into the community; reassessing offender suitability for release and making a recommendation to the National Parole Board; and providing supervision and programs for offenders in the community until the end of the sentence.

**1.5** Overall spending on reintegration has risen by \$38 million (13 percent) over the past three fiscal years. Correctional Service Canada spends about \$329 million or 28 percent of its total expenditures for the reintegration of offenders.

**1.6** In 1997–98, there were 13,449 incarcerated offenders in federal institutions and 8,744 offenders in the community, most of whom were supervised by Correctional Service parole officers. Until recently, the proportions of federal offenders in institutions and under community supervision have remained fairly constant. However, in 1997–98, the number of offenders supervised in the community increased by about 500.

**1.7** Under the *Corrections and Conditional Release Act*, there are several different ways that an offender can be released into the community: day parole (six months prior to full parole); full parole (at one third of the sentence) and statutory release (after two thirds of the sentence). Some offenders will be detained until the end of their sentence.

**1.8** A recent change allows offenders serving their first federal sentence who have not been convicted of a violent crime or serious drug offence to be released on day parole at one sixth of their sentence (accelerated parole review).

**1.9** Our previous audit work, in 1994 and 1996, identified systemic weaknesses in the Service's management of reintegration activities. Those audits identified concerns in such areas as work standards, quality assurance procedures, performance information, implementing basic changes and learning from successes and failures. This chapter revisits those issues.

**1.10** As promised to the Public Accounts Committee in April 1998, we reviewed changes made by the Service to the custody rating scale and looked at whether the Service had implemented the new offender security reclassification instrument. We found that the changes to the custody rating scale reduced overrides with minimal impact on the number of escapes. The Service has just implemented a new reclassification instrument, as promised.

**1.11** In addition to their institutional security responsibilities, senior correctional officers still do not consistently perform their required offender reintegration duties, a necessary input to offender assessment reports to the National Parole Board. The Service has undertaken an initiative to address this issue.

**1.12** While the Service has developed a continuum of rehabilitation programs from the institution to the community, its ability to deliver these programs to offenders in the community falls short of current needs. Research indicates that many intervention programs that deal with offenders' criminogenic needs are more effective when delivered in the community.

**Correctional Service's responses to our recommendations are included in this chapter. The Service concurs with the recommendations made and its responses indicate its commitment to take the necessary corrective action.**



# Revenue Canada

## Underground Economy Initiative

### Chapter 2 – Main Points

**2.1** Revenue Canada has reported that the tax impact (taxes resulting from enforcement actions) of its activities to address the underground economy was \$2.5 billion over five years; however, this includes the results of both regular ongoing enforcement programs and the Underground Economy Initiative. The actual tax impact attributable to the detection of unreported income by the 1,000 staff allocated to Initiative audit activities is much less than the \$500 million reported.

**2.2** It is difficult to assess the overall success of the Initiative in combatting the underground economy because the Department does not measure and report on the full range of Initiative activities and how they have changed taxpayer behaviour.

**2.3** Revenue Canada needs to assess the role that social marketing might play in making the public aware of the societal costs of unpaid taxes and in soliciting its support to combat the underground economy. Polls indicate that an alarming number of Canadians would be willing to participate in the underground economy. The Department also needs to strengthen the activities that promote voluntary compliance by businesses.

**2.4** The underground economy is a difficult and complex problem to solve and the size of the tax loss is significant. The problem requires continuous attention and sustained efforts from Revenue Canada and all Canadians.

#### Background and other observations

**2.5** The underground economy results in tax evasion and represents an estimated annual loss of federal and provincial tax revenues of \$12 billion. Tax evasion is not a victimless crime. It puts honest businesses at a competitive disadvantage and, in some cases, out of business. It also causes honest taxpayers to bear the tax load of those who cheat. If left unchecked, underground economy activity could lead to a loss of faith in the fairness of Canada's tax system.

**2.6** In 1993, Revenue Canada announced a new initiative to combat the underground economy by allocating 200 staff to its non-filers and non-registrants program and 1,000 staff to the audit of small businesses, where most of the underground economy activity exists. Thirty-five percent of the Department's audit staff for small and medium-sized businesses are now involved in the Underground Economy Initiative audit activities.

**2.7** The Initiative as planned was, in our view, a balanced approach to combatting tax evasion in the underground economy. It included activities to promote voluntary compliance in small businesses such as community visits and consultations with industry associations. As well, it involved other federal departments, provincial and municipal governments and private sector organizations in sharing information to better deal with the underground economy.

**2.8** The Department can improve its targeting of audits for the detection and reassessment of unreported income. As well, legislative opportunities exist to strengthen existing incentives to deter participation in the underground economy.

**Revenue Canada has agreed to take action to address our recommendations.**



### Chapter 3 – Main Points

**3.1** Statistics Canada is committed to producing statistics of high quality. It has put in place a wide range of systems and practices to build quality into its statistical programs and to maintain an environment that encourages a concern for quality throughout the organization. However, the quality of the statistics it produces needs to be better documented and reported both within and outside the Agency. The Agency needs to integrate its many quality-related systems and practices better and adopt a more disciplined approach to documentation.

**3.2** The Agency has employed a number of formal quality assessment mechanisms, but individual programs have not applied them consistently. We concluded that the mechanisms currently used do not, either individually or collectively, provide systematic, transparent information on the adequacy of quality management systems and practices in the Agency's statistical programs or on the quality that they actually achieve.

#### Background and other observations

**3.3** Statistics Canada is responsible for collecting, compiling, analyzing and publishing statistical information on the economic, social and general conditions of Canada and Canadians. The statistics that the Agency produces support the development, implementation and evaluation of policies, programs and decision making in all sectors. They help us make informed decisions about such matters as where to live, what careers to pursue and how to vote. The Agency is widely respected among its peers, and has an international reputation for independence, innovation and quality that is second to none.

**3.4** Rapid social, economic and other changes have heightened the demand for reliable, objective statistical information on a wide variety of issues. As the demand for and use of statistics grow, their quality becomes increasingly important. Statistics Canada has identified six characteristics that its systems and practices for managing quality need to address: relevance, accuracy, timeliness, accessibility, interpretability and coherence.

**3.5** The Agency carried out self-assessments of four major surveys for our audit. Each assessment reached a positive conclusion about the overall adequacy of quality management. The work was well planned and executed. We concluded that in three of the four surveys, the self-assessments provide reasonable assurance that quality management systems and practices are adequate. In the remaining case, however, we concluded that the weaknesses identified and the recommendations made are more important than the self-assessment suggests, and deserve the attention of senior management.

**3.6** While its policy on informing users of data quality and methodology is clear and well structured, the Agency's implementation of the policy is inconsistent. Consequently, users are not always appropriately informed of the strengths and limitations of statistics. We also noted that while the quality of statistics figures prominently in its commitments to Parliament for results, the Agency's most recent Performance Report, tabled in October 1998, provides only limited information on the quality of the statistics that it produced.

Statistics Canada's responses to our recommendations are included in this chapter. The Agency either agrees to take action or notes that initiatives are under way in the case of six of the eight recommendations we make. In the remaining two cases, the Agency agrees with the intent of our recommendations and indicates that it will consider the issues further.



## Fisheries and Oceans

### Managing Atlantic Shellfish in a Sustainable Manner

#### Chapter 4 – Main Points

**4.1** In October 1997, we reported on problems associated with the Department's management of the Atlantic groundfish fisheries. In the current audit, we found that many of these problems also exist in the Department's management of the Atlantic shellfish fisheries. For example, we noted increases in harvesting capacity and the encouragement of increased fisher participation through open access licensing in the shellfish fisheries. In addition, we found weaknesses in the information used in making resource decisions, and gaps in monitoring, control and surveillance. The full impact of these problems is not obvious, as most shellfish fisheries are currently recording high landed values. However, in our view these are significant concerns that must be addressed to ensure that the shellfish fisheries are managed in a sustainable manner.

**4.2** The Department's decisions have a profound impact on those engaged in the fishing industry and the communities that rely on the income generated from the industry. The absence of a fisheries policy that fully reflects sustainability concepts means that decisions are made on an ad hoc and inconsistent basis rather than as part of an overall framework for achieving a sustainable fishery. An open and transparent process in which clearly articulated and consistently applied principles guide decision making would provide all stakeholders with assurance that their interests are considered and that the resource is protected over the long term.

**4.3** We observed resource use decisions that are not consistent with the Department's currently stated objectives for fisheries management. As we reported in October 1997, there is a need to have the government clarify fisheries objectives in legislation. The Department needs to move forward with the development of a sustainable fisheries framework that incorporates the interdependent factors — biological, economic and social — that affect the fishery.

#### Background and other observations

**4.4** In the 1990s, Atlantic Canada saw a virtual collapse of its commercial groundfish fishery (cod, haddock, pollock, halibut and various flatfish). In the same period, however, there was a general rise in the value of shellfish landings (lobster, scallop, snow crab and shrimp). In 1997, the landed value of all shellfish in Atlantic Canada was \$920 million, which represented 81 percent of the landed value of all fish landed in the region.

**4.5** The Department has stated in its key parliamentary accountability documents that its objective is conservation, or protecting the productive capacity of the natural resource that supports the fishery. It has also reported that it has an economic objective, but the expected results for this objective are not stated. The Department has indicated that it is not responsible or accountable for social outcomes. We found that most resource use decisions in the shellfish fisheries are heavily influenced by social and economic factors.

**4.6** The Department's "Fishery of the Future" strategy reflects objectives that include ensuring economically viable and self-reliant fisheries, over time. However, these objectives are not fully reflected in the Department's reporting to Parliament. We found resource use decisions in the shellfish fisheries that are inconsistent with the concept of an economically viable industry.

**4.7** Co-management, designed to increase industry's role, responsibility and accountability in fisheries management, is an important aspect of the Department's Fishery of the Future strategy. Participants assuming greater responsibility for their industry is an important element of sustainability. However, very little power sharing has actually occurred. In our opinion, there are weaknesses in the Department's current approach to co-management.

**4.8** The Department has recognized that there are weaknesses in the fisheries management framework in the existing *Fisheries Act*. However, amendments to deal with these weaknesses have not yet been re-introduced in the House of Commons.

**Fisheries and Oceans' responses to our recommendations are included in this chapter. The Department either agrees to take action or notes that initiatives are under way to address three of our four recommendations. The Department has not indicated an intention to take action at this time on our recommendation that addresses co-management.**



# Collaborative Arrangements

## Issues for the Federal Government

### Chapter 5 – Main Points

**5.1** Collaborative arrangements are an alternative way — a potentially more innovative, cost-effective and efficient way — to deliver programs and services that traditionally have been provided by federal government departments and Crown corporations. In collaborative arrangements, the federal government, other levels of government and organizations in the private and voluntary sectors agree to share power and authority in decisions on program and service delivery.

**5.2** With the growing use of these arrangements, more taxpayer dollars are being spent and the risks need correspondingly more attention. The risks include arrangements set up poorly among the partners, limiting their chances for success; partners not meeting commitments; insufficient attention to protecting the public interest; insufficient transparency; and inadequate accountability.

**5.3** We believe that serving the public interest, effective accountability and greater transparency are basic elements of a framework for these arrangements, and we suggest questions that parliamentarians might wish to raise when assessing them.

#### Background and other observations

**5.4** In the desire for greater efficiency, it is very important that the federal government and its partners not lose sight of the public purpose behind the collaborative arrangement, and of the need to provide transparent, fair and equitable service to the public.

**5.5** Effective accountability is more complex in a collaborative arrangement. The federal government is accountable to Parliament for the use of federal funds and authorities, to its partners for keeping its commitments, and, with its partners, to the public for the results the arrangement produces. In our view, this shared accountability means that more parties are accountable and it in no way lessens the federal government's accountability for its own responsibilities in the arrangement.

**5.6** Delivering programs and services to the public through collaborative arrangements often requires more transparency than traditional delivery by a government department. Because partnerships are involved, it may be more difficult for citizens to know who is responsible. Consequently, the federal government needs to be as open as possible with information about agreements, decisions and results of the arrangements.

**5.7** The Treasury Board Secretariat has informed us that it intends to continue to provide advice and to develop guidance on collaborative arrangements for federal departments and agencies that will address many of the issues identified in this study.



# Human Resources Development Canada — Accountability for Shared Social Programs

## National Child Benefit and Employability Assistance for People with Disabilities

### Chapter 6 – Main Points

#### National Child Benefit

**6.1** The National Child Benefit (NCB) represents a new form of collaborative arrangement between provinces (except Quebec) and territories and the federal government. A key challenge for all involved is to assure taxpayers that moneys are spent for the purposes intended, with due regard to economy and efficiency and with appropriate means to measure and report on effectiveness. Because there are many governments involved, it is also necessary to respect the jurisdictional competence of the different parties. As the NCB is implemented it is critical that, at a minimum, there be no less accountability because it is shared than if only one jurisdiction were involved.

#### Background and other observations

**6.2** The goal of the National Child Benefit is to reduce the depth of poverty among families with children and to increase parental attachment to the work force. The NCB involves no new law, contract, or contribution agreement, but rather an increased federal child tax benefit (the NCB supplement) for low-income families — about \$850 million in 1998, rising to \$1.7 billion by 2000. In turn, jurisdictions providing social assistance benefits to families may reduce their payments by the amount of the increased tax benefit. They have agreed to reinvest these savings in programs that have mutually agreed-upon objectives and that benefit poor families with children.

**6.3** One of the clear achievements of the negotiations leading to the NCB was the partners' agreement on the overall goals of both the federal and the provincial elements of the program. They also have committed to a new kind of joint accountability to the public. What is distinctive about this commitment is that no level of government is more responsible for reporting on the results than another. Each is accountable for the overall program.

**6.4** It will be a significant challenge in the first few years, before evaluation results are available, to demonstrate precisely how the National Child Benefit has contributed to reduced depth of poverty and increased employment among its recipients. In assessing progress, the NCB accountability report will also need to be clear about any trade-offs among goals and to discuss the implications. Otherwise, readers may expect that all goals can be achieved at the same time.

**6.5** There are potential gaps in the quality of financial and other information. The credibility of the accountability reports depends on the comparability, accuracy and verifiability of information from all parties — not only those who negotiated the arrangement (provinces, territories and the federal government) but also those who are responsible for designing and implementing only specific sub-programs (Ontario municipalities and First Nations). This is also a challenge for audit offices that serve the partners in this arrangement.

**6.6** We think the key ingredients in reporting the NCB's results to the public are transparency and adequacy of the information. This means:

- appropriate care is taken to ensure that the information is credible and, at least for financial information, subject to audit;
- data are adequate to determine if the program's overall goals are being achieved; and
- data are sufficiently comparable that outcomes of different provincial approaches can be compared.

It must also be clear whose responsibility it is to do all this, and who will provide assurance that it has been done. Moreover, those charged with the responsibility must have the capacity to undertake the task.

**The Department has said that this chapter will be of considerable assistance in its work to build an accountability regime for the NCB. Some issues are already being addressed. The remaining issues identified in this study will be raised by the federal government in its capacity as co-chair of the federal-provincial-territorial group working on the NCB.**

## Employability Assistance for People with Disabilities

**6.7** Employability Assistance for People with Disabilities (EAPD) is the other program to emerge from federal-provincial discussions in 1997–98 on the social union. The aim of this 50–50 cost-shared arrangement is to help people with disabilities overcome the barriers they face in the labour force. EAPD supports provincial and territorial programs and services ranging from programs that assist in the first steps toward developing skills to those that support a person at work so the person can keep working. Our interest in the program at this early juncture is that steps be taken to ensure that the information each partner will provide on its own expenditures and programs is credible, and permits comparisons of different approaches and assessments of the overall program's effectiveness.

### Background and other observations

**6.8** Each province has signed an agreement with the federal government. Taken together, the agreements illustrate several of the elements of a collaborative arrangement discussed in Chapter 5 of this Report. For instance, the governments agree to follow a co-ordinated, participative planning process and to evaluate program results.

**6.9** Human Resources Development Canada (HRDC) and provincial partners have set about to solve implementation issues in a collaborative fashion. For example, the provinces have committed to annual accountability to HRDC. However, so far there is no specific commitment to the format, substance, or timing of any overall annual report, nor are there specific goals or targets over any time frame. We recommend that HRDC prepare a brief overall annual report for EAPD, comparing activities, expenditures, program outputs and performance of the partners.

**6.10** The partners still have important work to do. When so many jurisdictions are involved, those with oversight and audit responsibilities face the challenge of helping to ensure that the quality of financial and performance reporting is maintained and enhanced.

**The Department has said that the case study will be useful in its work with provinces. It agrees in principle with the recommendation to produce an overall annual report on EAPD expenditures and performance. It pointed out that it will be important to note that EAPD is only one part of overall programming for people with disabilities.**



# The Atlantic Groundfish Strategy

## Contributions and Grants

### Chapter 7 – Main Points

**7.1** We have little assurance that all contributions under The Atlantic Groundfish Strategy (TAGS) were used for their intended purposes. These were part of TAGS active labour adjustment measures managed by Human Resources Development Canada (HRDC).

**7.2** Most of the deficiencies noted in the audit relate to a lack of diligence in assessing project proposals and signing contribution agreements, as well as lack of monitoring by the Department.

**7.3** Many of the files contained no project proposals; in others, proposals were not sufficiently developed to allow proper assessment. Some agreements lacked complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. There was little evidence of on-site monitoring visits to examine expense records.

#### Background and other observations

**7.4** The Atlantic Groundfish Strategy, in effect from 16 May 1994 to 29 August 1998, comprised measures to assist those affected by the groundfish moratorium. About \$150 million of the \$1.9 billion allocated to TAGS was spent on active labour adjustment measures such as training, mobility assistance, wage subsidies and employment bonuses.

**7.5** Those expenditures were not covered in our audit of The Atlantic Groundfish Strategy, reported in Chapter 16 of our October 1997 Report. Following the publication of that Report, the House of Commons Standing Committee on Fisheries and Oceans requested that we audit the expenditures.

**7.6** Our Office and the Internal Audit Bureau (IAB) of Human Resources Development Canada agreed that IAB would audit the grants and contributions made under TAGS. We closely monitored and reviewed that audit so we could rely on the findings for this chapter.

**7.7** TAGS had increased the caseload of officers by some 40,000 participants over a short period of time. This created pressure to identify, approve and contract for an unprecedented number of projects.

**7.8** Several contributions went to projects that were not clearly related to TAGS. More than half of the agreements were signed after projects had begun. Expenditures were reimbursed without supporting documentation for the claims. For more than half of the projects reviewed, there was no evidence that the files had been closed, although most of those projects had been completed more than two years earlier.

**Overall, Human Resources Development Canada agrees with the findings of the audit and recognizes that a number of important points and concerns are raised in the chapter. Actions undertaken to address the issues include the development of new policies and procedures, training for managers and staff and, in new initiatives, securing resources to ensure sufficient monitoring.**



# The Atlantic Groundfish Strategy

## Follow-up

### Chapter 8 – Main Points

**8.1** We believe the government's efforts to implement the recommendations in our October 1997 Report Chapter 16 on The Atlantic Groundfish Strategy (TAGS) have been satisfactory.

**8.2** New fishery restructuring and adjustment measures are being implemented. In contrast to our observations of 1997, the eligibility criteria for the new measures are clear, logical and applicable. The accountability framework established for the measures corrects the shortcomings we had identified in TAGS: it clearly defines the responsibilities of the organizations involved, sets out an overall strategic plan and provides for a formal co-ordination mechanism.

#### **Background and other observations**

**8.3** The objective of TAGS (1994–98) was to restructure the fishery industry in Atlantic Canada to make it economically viable and environmentally sustainable.

**8.4** Close to \$1.9 billion was allocated to TAGS. Most of the funding was used to provide income support to the some 40,000 fishers and plant workers affected by the groundfish moratorium.

**8.5** In October 1997, we urged the government to carefully examine the impact of the decisions made under TAGS in order to benefit from the valuable lessons that could be learned.

**8.6** This follow-up examined progress to date in addressing our 1997 recommendations. Some of our observations in this chapter relate to TAGS and others to the Atlantic fishery restructuring and adjustment measures announced in June 1998.

**8.7** Human Resources Development Canada completed an evaluation of the labour adjustment component of TAGS. It also reviewed the duration of eligibility of TAGS participants. The departments involved in implementing the new measures now have considerable information on the profile of the targeted populations, in sharp contrast to the situation that prevailed when TAGS was developed.

**8.8** We believe the orderly way in which the departments are implementing the new fishery restructuring and adjustment measures represents satisfactory progress.



# Management of Science and Technology Personnel

## Follow-up

### Chapter 9 – Main Points

**9.1** We are satisfied with the efforts made by the science and technology community to follow up on our audit recommendations of 1994 and the concerns we raised in our 1996 follow-up report. In our view, the community is showing leadership and perseverance in dealing with the human resource management issues we raised.

**9.2** As a result of all the work done since 1994, the science and technology community is now in a position to act. But the community is faced with considerable challenges. It must give priority to resolving the oncoming changes in its demographic profile that could weaken or compromise the government's science and technology capacity. It must tackle the dual challenges of attracting and recruiting promising young scientists and technologists while retaining high-calibre employees to mentor and develop the new recruits. The community is thus seeking new measures, tools and resources for external recruitment, as it estimates that over the next five years it may have to recruit between 2,500 and 3,300 employees to build a renewed and rejuvenated science and technology work force.

#### Background and other observations

**9.3** At 31 March 1998, the federal government had close to 20,000 scientific and technical employees working in science-based departments, agencies, Crown corporations and research establishments in the fields of natural sciences and engineering (hereinafter referred to as the "science and technology community").

**9.4** The science and technology community makes an important contribution to the government's 1996 science and technology strategy, which focusses on sustainable job creation and economic growth, improved quality of life and the advancement of knowledge.

**9.5** Expenditure and work force reduction in the public service has changed the profile of the science and technology community and worsened the long-identified problems of rejuvenation and recruitment. The change in the age profile is a major challenge to the future of the community. Not only have most senior and experienced scientists and technologists left the government since 1994, but the youngest and most promising as well.

**9.6** Following our 1994 audit of federal science and technology activities, the community mobilized to develop a management framework and a results-oriented plan for human resources management in science and technology. It addressed such issues as the need for a more strategic approach to the management of scientific personnel; for more systematic renewal of scientific personnel; and for more effort to maintain the skills and knowledge base in research establishments. Working groups were created to study important human resource issues. Among their recommendations to the Science and Technology Senior Steering Committee on Human Resources was that new mechanisms be adopted and human resource strategies developed to improve the management of science and technology personnel in science-based departments and agencies.

**9.7** In 1994, we pointed out the need to develop a stronger and more effective management capability. Since then, the community has developed a competency profile for science and technology managers. During our consultations, we noted that most science-based departments used their own competency profiles instead of the one developed by the working group. Moreover, their profiles were being used solely to identify training needs and generally not for purposes of manager recruitment, promotion or performance assessment. Present practices suggest a lack of consensus in the community on the management competency profile defined by the working group. This could eventually prevent the integration of recruitment and training activities as well as the reward, promotion and compensation systems envisioned in the *Science and Technology Blueprint for Human Resources Management*.

**9.8** The Treasury Board Secretariat, science-based departments and agencies and the science and technology community have indicated that they are committed to following through on the strategies and plans developed to date.



## Indian and Northern Affairs Canada

### Funding Arrangements for First Nations: Follow-up

#### Chapter 10 – Main Points

**10.1** Indian and Northern Affairs Canada still needs to better match the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for billions of dollars they receive annually through the Department.

**10.2** The Department is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements, are appropriately resolved. Redress (resolution mechanisms) needs to be improved as an element of accountability.

**10.3** The Department has stated that it has slowed the rate at which the Financial Transfer Arrangement (FTA), a new type of funding arrangement, is being implemented in order to address issues concerning the willingness and ability of First Nations to adopt it. The Department still has a long way to go if it wishes to achieve its objective of implementing the FTA as the appropriate funding mechanism to replace other types of funding arrangements. It will need to find ways to expedite the conversion process while improving co-ordination of funding with other federal departments.

#### Background and other observations

**10.4** Funding arrangements are a key element in the relationship between First Nations and the federal government. Parliament appropriates about \$4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and other Aboriginal groups.

**10.5** In our November 1996 Report, we made recommendations relating to funding arrangements, including the FTA, and to the co-ordination of funding across federal departments. We also made recommendations on accountability issues and on the suitability of funding arrangements for the needs of the Department and First Nations.

**10.6** This follow-up focusses on the Department's implementation of our 1996 recommendations.

**The Department believes that with respect to redress, the follow-up extends beyond the issues raised in 1996; however, it has acknowledged that continuing effort is needed to improve certain aspects of funding arrangements, including accountability.**

## Other Audit Observations

National Defence and  
Health Canada

*The work that led to other audit observations was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

## National Defence and Health Canada

### Non-compliance with conditions and inadequate monitoring with respect to the pre-licensing use of an anti-malarial drug

*National Defence participated in a clinical trial of an anti-malarial drug, but did not follow the study protocol when the drug was administered to Canadian Forces personnel deployed to Somalia. Despite a requirement in the protocol to do so, the Department did not obtain consent from the personnel who received the drug, did not systematically monitor for efficacy, and did not provide to the study sponsor records of the drug's administration or reports of adverse reactions to the drug.*

*Once Health Canada approved the conditions for the clinical trial of the drug, it made no attempt to monitor the study to ensure that the trial was adhering to the protocol with its reporting requirements and procedures to protect patients' well-being.*

*Health Canada is responsible for the regulation and licensing of drugs in Canada. An unlicensed drug may be made available only through special measures, such as a clinical trial when Health Canada has approved the study design and protocol for testing the drug. Some studies test the drug in "real world" conditions and are thus a potentially valuable source of information about adverse drug reactions among specific populations, efficacy problems in certain environments, and so on.*

### Background

1. Health Canada licenses manufacturers to produce and sell drugs that have been demonstrated to be safe and effective. Only licensed drugs can be sold in Canada, except under specific, controlled conditions. For example, an unlicensed drug may be available through the Special Access Program (whereby Health Canada approves the sale of the drug for a specific patient), or through a "clinical trial", which tests the drug to obtain evidence on its safety, dosage and effectiveness. A clinical trial is conducted under the direction and control of a sponsor (usually the manufacturer), but the study design and protocol must be approved by Health Canada. Once it has approved the protocol and received information about the investigators appointed by the sponsor, the sponsor is responsible for conducting the study and ensuring that the investigators follow the protocol. The sponsor is obligated to inform Health Canada of any serious adverse reactions (other than those already identified) or deaths associated with the drug.

2. As they travel throughout the world and are involved in hostile situations, Canadian Forces members are sometimes exposed to health hazards for which licensed drugs or other protective measures are not available in Canada. These may include diseases, such as malaria, that are not common in Canada or health hazards associated with hostile actions such as biological warfare. As a result, National Defence must sometimes obtain drugs or vaccines through special measures.

3. Canadian Forces members may be subject to discipline under the *National Defence Act* if they refuse to submit to a treatment, drug or vaccine when ordered to do so. National Defence officials told us that it is policy not to seek written, informed consent when preventive drugs or vaccines are prescribed for Canadian Forces members during deployments, since such consent is often not compatible with operational requirements.

4. Mefloquine is an anti-malarial drug that is recommended by the World Health Organization and others for use

against some types of malaria that have become resistant to other drugs. Although licensed in a number of countries since the late 1980s, it was not licensed in Canada until 1993 and in 1992 was available to National Defence only through a Safety Monitoring Study. Use of the drug was conditional on satisfying the requirements of the protocol for the study, including obtaining informed consent.

5. From November 1990 to early 1993, mefloquine was available in Canada only through an “open label, compassionate access” clinical trial called a Safety Monitoring Study, under the sponsorship of the drug’s manufacturer. The objectives of the study were:

- to ensure that the Canadian public travelling to regions where chloroquine-resistant malaria was present had access to mefloquine under controlled conditions; and
- to collect safety data on those travellers.

6. The study was carried out under the direction of 21 principal investigators, who were medical doctors in travel clinics across Canada. The study protocol specified the investigators’ responsibilities, including keeping accurate records on dispensing and reporting all adverse drug reactions. It stipulated that informed consent was to be obtained from all participants and specified that “safety data will be collected and efficacy will be monitored for each subject receiving [mefloquine]”. All data and records were to be provided regularly to the sponsor (the manufacturer).

7. National Defence participated in the study beginning in March 1991, with a physician at an Ottawa hospital as a principal investigator and a Department physician as a co-investigator.

## Issues

### **National Defence did not consistently follow the protocol for the Mefloquine Safety Monitoring Study**

8. From 1991 to July 1992, 96 National Defence officials travelling to Cambodia and Africa were given mefloquine under the provisions of the Safety Monitoring Study. The Department kept records of all but 362 of the 3,500 mefloquine tablets dispensed; obtained consent forms from the travellers; and reported to the study sponsor on the frequency of adverse effects.

9. However, National Defence did not follow the protocol in the fall and winter of 1992–93, when mefloquine was dispensed to approximately 900 Canadian Forces members before they left for Somalia and while there. It did not provide the manufacturer with records of the drug’s distribution, nor did it obtain the consent of those receiving the drug, which was not licensed. Canadian Forces members were given an oral briefing on malaria, mefloquine, and the possible side effects, but did not get the written documentation given to other Department travellers who received the drug. Further, even though all supplies of the drug used by National Defence were labelled “for investigational use only”, the Department did not systematically monitor efficacy or adverse reactions for each person receiving the drug, as required by the study protocol. It relied instead on a disease surveillance system and a periodic report of activities to provide any indication of side effects or other problems with mefloquine.

10. The manufacturer had identified a number of side effects of the drug for which patients were to be monitored, including gastrointestinal, central nervous system and psychiatric disorders. (While severe side effects were rare, mefloquine was not prescribed for pilots or others in occupations “requiring fine co-ordination and spatial discrimination, where the

sudden onset of dizziness/vertigo can be hazardous or life-threatening”).) Although 69,000 doses of mefloquine had been provided to the Canadian Forces medical unit in Petawawa in September and October of 1992, information on their use and on adverse reactions or side effects was not reported. Thus, neither the manufacturer nor Health Canada benefited from information that might have been obtained about safety and efficacy of mefloquine.

**11.** National Defence officials told us they did not follow the protocol because they believed at the time that they had received authorization from Health Canada to follow a different set of procedures that would not require informed consent. However, no such authorization was obtained, nor have we been provided with any evidence that such authority was sought, or even discussed in National Defence, with Health Canada or with the manufacturer. National Defence attributes this confusion to a lack of communication between two of its directorates.

**12.** In an attempt to minimize the likelihood of non-compliance with the *Food and Drugs Act* and Regulations, in July 1998 National Defence established a position with responsibility for all regulatory issues relating to unlicensed medical products. This position serves as a single point of contact between the Department and Health Canada's Health Protection Branch.

#### **Health Canada took no steps to ensure the mefloquine study protocol was followed by National Defence**

**13.** Health Canada officials told us that although they had approved the protocol for the Mefloquine Safety Monitoring Study, they took no steps to ensure that it was followed. They said that monitoring the conduct of the study was

the responsibility of the manufacturer, as the sponsor of the study.

**14.** Health Canada has the right, under the Food and Drug Regulations, to request copies of the records of a study and to terminate the study if it believes it is not being conducted properly. However, it has no procedures for monitoring the conduct of these studies or clinical trials.

**15.** We found that National Defence was not the only participant in the study who failed to provide the manufacturer with information about patients and the dispensing records of the drug. The manufacturer's final report on the study (April 1993), which included the results reported by all 21 principal investigators, stated that the inability to obtain the actual number of patients receiving mefloquine made it necessary to estimate the number on the basis of pills dispensed. The report noted that:

- 501,424 pills had been shipped to all investigators in the study but there were records for only 331,695 (66.2 percent); and
- there were an estimated 38,747 patients, but records for only 25,235 (65.1 percent).

**16.** Mefloquine has been available in the U.S. and Europe since the late 1980s, and was licensed in Canada in January 1993, and available on the Canadian market in March 1993. However, not until October 1994, when the use of the drug by Canadian soldiers in Somalia became an issue in the media, did Health Canada ask the manufacturer for copies of the records on the 69,000 doses of mefloquine provided to National Defence in 1992. The manufacturer did not have any such records, although the study protocol called for them to be provided to the manufacturer every six months; it passed the request on to National Defence. When the Department could not provide the information, Health Canada took no action.

## Conclusion

17. National Defence did not consistently keep essential records or follow required procedures to fulfil its obligations as a participant in a clinical study of an unlicensed drug. As a consequence, the integrity of the Mefloquine Safety Monitoring Study may have been compromised and potentially valuable information about the safety or efficacy of the drug under “field” conditions was not gathered. We have noted that, as a result of this situation, National Defence has implemented measures to increase monitoring and improve documentation when using unlicensed medical products.

18. Where unlicensed drugs are dispensed through clinical trials, Health Canada has the responsibility to review and approve the trial design and protocol. It needs to assure itself that the conditions of clinical trial protocols are met in order to preserve the integrity of the process and to satisfy conditions set out under the Food and Drug Regulations. “Open label” trials provide an opportunity to test the safety and efficacy of drugs in “real world” situations and thus to identify potential hazards or problems that may not surface under laboratory conditions. They

represent a potentially valuable source of information about the drug and its use.

**National Defence’s response:** *Despite the shortcomings identified in this audit observation, cases of potentially lethal malaria were prevented and the health and safety of Canadian Forces personnel were not compromised. At the time of the Somalia deployment, mefloquine was already licensed in 29 countries, including the United States, and the drug had an established record of safety and efficacy. This record is further supported by the recommendations of the World Health Organization and by Health Canada’s granting of a Canadian licence in January of 1993, which coincided with the arrival of the main body of Canadian troops in Somalia.*

**Health Canada’s response:** *It is Health Canada’s policy that the monitoring of study protocols rests with the sponsor of the clinical trial (usually the manufacturer), as well as associated institutional research ethics boards, and data safety monitoring committees. Physicians conducting clinical trials do so under provincial/territorial jurisdiction and processes are in place to monitor the compliance of medical professionals with established practice protocols.*

## Audit Team

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**Réponse de Santé Canada :** Selon la politique de Santé Canada, la supervision des protocoles d'étude incombe au commanditaire de l'essai clinique (habituellement le fabricant), de même qu'aux comités institutionnels associés d'éthique pour la recherche et aux comités de contrôle de la sécurité des données. Les médecins qui effectuent les essais cliniques sont régis par les administrations provinciales-territoriales, et des processus sont en place pour veiller à ce que les professionnels de la santé suivent les protocoles de pratique établis.

et la santé et la sécurité du personnel des Forces canadiennes n'ont pas été compromises. Au moment du déploiement en Somalie, la méfloquine était déjà homologuée dans 29 pays, y compris aux Etats-Unis, et l'innocuité et l'efficacité du médicament étaient déjà reconnues. Ces antécédents sont appuyés davantage par les recommandations de l'Organisation mondiale de la santé et par le fait que Santé Canada en a autorisé la vente en janvier 1993, au même moment où le gros des troupes canadiennes arrivaient en Somalie.

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d'assumer la responsabilité du contrôle de l'étude.

**14.** Santé Canada a le droit, en vertu

des règlements de la *Loi sur les aliments et drogues*, de demander des copies des registres d'une étude et de mettre un terme à l'étude s'il estime qu'elle n'est pas

menée dans les règles. Cependant, le Ministère n'a pas de procédure pour surveiller le déroulement de ces études ou de ces essais cliniques.

**15.** Nous avons constaté que la

Défense nationale n'est pas le seul participant à l'étude à ne pas avoir fourni au fabricant des renseignements sur les patients et les registres d'administration du médicament. Le rapport final de l'étude remis par le fabricant en avril 1993, qui incluait les résultats transmis par les 21 chercheurs principaux, indiquait que l'incapacité d'obtenir le nombre réel de patients qui ont reçu de la méthoquine a fait qu'on a dû estimer ce chiffre en se basant sur le nombre de comprimés fournis. Le rapport précise :

• que 501 424 comprimés avaient été envoyés à tous les chercheurs responsables de l'étude, mais qu'il existait des registres pour seulement 331 695 comprimés (66,2 p. 100);

• qu'on a estimé le nombre de patients à 38 747, mais qu'il existe des registres pour seulement 25 235 personnes (65,1 p. 100).

**16.** La méthoquine est en vente aux États-Unis et en Europe depuis la fin des années 80. Autorisée au Canada en janvier 1993, elle est devenue disponible sur le marché en mars 1993. Ce n'est toutefois qu'en octobre 1994, lorsque l'utilisation du médicament par des soldats canadiens en Somalie a fait les manchettes, que Santé Canada a demandé au fabricant des copies des registres des 69 000 doses de méthoquine fournies à la Défense nationale en 1992. Même si le protocole de l'étude exigeait que ces registres soient transmis au fabricant tous les six mois,

## Conclusion

**17.** La Défense nationale n'a pas

régulièrement conservé les registres essentiels ni suivi les procédures requises pour remplir ses obligations à titre de participant à une étude clinique sur un médicament non homologué. En conséquence, l'intégrité de l'étude de contrôle de l'innocuité de la méthoquine a pu être compromise, et des renseignements qui auraient pu être précieux sur l'innocuité ou l'efficacité du médicament utilisé « sur le terrain » n'ont pas été recueillis. Nous avons noté que, par la suite, la Défense nationale avait instauré des mesures pour accroître la surveillance et améliorer la documentation lorsqu'elle utilise des médicaments non homologués.

**18.** Lorsque des médicaments non

homologués sont distribués dans le cadre d'essais cliniques, il incombe à Santé Canada d'évaluer et d'approuver le plan de travail et le protocole d'essais. Il lui faut s'assurer que les modalités énoncées dans les protocoles des essais cliniques sont respectées, afin de préserver l'intégrité du processus et de satisfaire aux conditions prévues par les règlements de la *Loi sur les aliments et drogues*. Les essais à « étiquetage ouvert » sont l'occasion de tester l'innocuité et l'efficacité de médicaments dans des situations « réelles » et, par conséquent, de relever les risques ou les problèmes potentiels qui peuvent rester cachés dans des conditions de laboratoire. Les essais peuvent être une source précieuse de renseignements sur le médicament et son usage.

**Réponse de la Défense nationale :** Malgré

les lacunes mentionnées dans cette observation de vérification, des cas de *malaria* et les effets potentiellement mortels de cette maladie ont été prévenus.

9. Cependant, la Défense nationale

n'a pas suivi le protocole à l'automne et à l'hiver de 1992-1993, lorsque la méfloquine a été administrée à environ 900 membres des Forces canadiennes avant leur départ pour la Somalie et pendant leur séjour dans ce pays. Le Ministère n'a pas fourni au fabricant de registres de distribution du médicament, ni obtenu le consentement de ceux à qui le médicament était administré, alors qu'il n'était pas homologué. Les membres des Forces canadiennes ont été renseignés oralement sur la malaria, la méfloquine et ses effets secondaires possibles, mais ils n'ont pas obtenu la documentation remise aux autres voyageurs de la Défense nationale qui avaient suivi le traitement. En outre, même si tous les emballages du médicament utilisés par le Ministère portaient l'étiquette « à des fins de recherche seulement », la Défense nationale n'a pas contrôlé systématiquement l'efficacité ou les effets indésirables du médicament sur chaque personne à qui le médicament avait été administré, contrairement aux exigences du protocole de l'étude. Elle s'est plutôt fiée à un système de surveillance des maladies et à un rapport périodique des activités pour déceler des indications d'effets secondaires ou autres problèmes liés à l'utilisation de la méfloquine.

10. Le fabricant avait repéré un

certain nombre d'effets indésirables pour lesquels les patients devaient être suivis, notamment des problèmes gastro-intestinaux, des troubles mentaux et du système nerveux central. (Même si les effets secondaires graves étaient rares, la méfloquine n'a pas été administrée aux pilotes ou à d'autres militaires ayant des occupations qui nécessitent une bonne coordination et une excellente discrimination spatiale, dans lesquelles un étourdissement ou un vertige subtil pourrait être dangereux ou constituer un danger de mort.) En septembre et octobre 1992, l'unité médicale des Forces canadiennes de Petawawa a reçu

69 000 doses de méfloquine, mais

aucun renseignement sur leur utilisation et sur les effets indésirables ou secondaires du médicament n'a été transmis. Par conséquent, ni le fabricant ni Santé Canada n'ont pu tirer parti des renseignements qui auraient pu être obtenus sur l'innocuité et l'efficacité de la méfloquine.

11.

Des représentants de la Défense nationale nous ont affirmé qu'ils n'avaient pas respecté les dispositions du protocole parce qu'ils croyaient à ce moment-là être autorisés par Santé Canada à suivre une ligne de conduite différente qui n'exigeait pas qu'on obtienne un consentement éclairé. Cette autorisation n'a toutefois pas été accordée, et nous n'avons reçu aucune preuve qu'une telle autorisation a été demandée ou même que la Défense nationale a abordé la question avec Santé Canada ou le fabricant. La Défense nationale attribue cette confusion à un manque de communication entre deux de ses directions.

12.

En juillet 1998, en vue de minimiser la possibilité de non-conformité aux règlements et à la *Loi sur les aliments et drogues*, la Défense nationale a créé un poste duquel relèvent toutes les questions de réglementation concernant les médicaments non homologués. Cette fonction sert de point de contact unique entre la Défense nationale et la Direction générale de la protection de la santé de Santé Canada.

Santé Canada n'a pris aucune mesure pour s'assurer que la Défense nationale suivait le protocole établi pour l'étude de la méfloquine

13. Les fonctionnaires de Santé Canada nous ont indiqué que même s'ils avaient approuvé le protocole de l'étude de contrôle de l'innocuité de la méfloquine, ils n'avaient pris aucune mesure pour veiller à ce que le protocole soit respecté. Ils ont dit qu'il incomberait au fabricant, en tant que commanditaire,

la santé que représentent des hostilités comme les guerres bactériologiques. Par conséquent, la Défense nationale doit parfois recourir à des mesures spéciales pour obtenir des médicaments ou des vaccins.

**3. En vertu de la Loi sur la défense nationale, les membres des Forces**

canadiennes peuvent faire l'objet de mesures disciplinaires s'ils refusent de se soumettre à un traitement, de prendre un médicament ou de recevoir un vaccin lorsqu'ils en ont reçu l'ordre. Des représentants de la Défense nationale nous ont indiqué que le Ministère a pour politique de ne pas solliciter de consentement écrit et éclairé pour l'administration de médicaments préventifs ou de vaccins aux membres des Forces canadiennes au cours des déploiements, car de tels consentements sont souvent incompatibles avec les exigences opérationnelles.

**4. La méfloquine est un**

médicament antipaludique recommandé entre autres par l'Organisation mondiale de la santé pour lutter contre certains types de malarie devenus résistants à d'autres médicaments. Bien qu'autorisée dans quelques pays depuis la fin des années 80, la méfloquine ne l'était pas au Canada avant 1993, et la Défense nationale a pu l'obtenir en 1992 seulement dans le cadre d'une étude de contrôle de l'innocuité. Dans ces circonstances, l'utilisation du médicament était conditionnelle au respect des exigences énoncées dans le protocole de l'étude, y compris l'obtention d'un consentement éclairé.

**5. De novembre 1990 au début de 1993, la méfloquine n'était disponible au Canada qu'en vertu d'un « accès humanitaire à étiquetage ouvert », dans le cadre d'un essai clinique appelé « Étude de contrôle de l'innocuité » menée sous l'égide de son fabricant. Les objectifs de l'étude étaient les suivants :**

- veiller à ce que les Canadiens voyageant dans des régions où se trouve la malarie résistante à la chloroquine aient accès à la méfloquine dans des conditions contrôlées;
- recueillir chez ces voyageurs des données sur l'innocuité du médicament.

**6. L'étude a été menée sous la**

direction de 21 chercheurs principaux, en l'occurrence des médecins travaillant dans des services de médecine tropicale répartis au Canada. Le protocole de l'étude précisait les responsabilités des chercheurs, notamment celles de tenir des registres précis sur l'administration du médicament et de déclarer tous ses effets indésirables. Il indiquait également qu'il fallait obtenir le consentement éclairé de tous les participants et précisait que « pour chaque sujet recevant de la méfloquine, il faudrait recueillir des données sur son innocuité et contrôler son efficacité ». Toutes les données et tous les registres devaient être remis régulièrement au commanditaire (le fabricant).

**7. La Défense nationale a participé**

à l'étude sur la méfloquine à partir du mois de mars 1991 en s'alliant à un médecin d'un hôpital d'Ottawa comme chercheur principal et à un médecin du Ministère comme chercheur associé.

**Questions**

**La Défense nationale n'a pas suivi régulièrement le protocole de l'étude de contrôle de l'innocuité de la méfloquine**

De 1991 à juillet 1992, 96 représentants de la Défense nationale qui devaient aller au Cambodge et en Afrique ont reçu de la méfloquine dans le cadre de l'étude de contrôle de l'innocuité de ce produit. Le Ministère a conservé des registres concernant 3 500 comprimés de méfloquine distribués, sauf pour 362 d'entre eux; il a obtenu les formulaires de consentement des voyageurs et a indiqué la fréquence des effets indésirables au commanditaire de l'étude.

## Non-respect des conditions et surveillance inadéquate de l'utilisation avant homologation d'un médicament antipaludique

La Défense nationale a participé à l'essai clinique d'un médicament antipaludique, mais n'a pas suivi le protocole de l'étude quand elle a administré le médicament au personnel des Forces canadiennes déployé en Somalie. Contrairement aux exigences du protocole, le Ministère n'a pas obtenu le consentement des personnes qui ont reçu le médicament, n'a pas effectué de contrôle systématique de l'efficacité du médicament et n'a pas fourni de registres d'administration du produit au commanditaire de l'étude, ni de rapports sur ses effets indésirables. Après avoir approuvé les conditions de l'essai clinique du médicament, Santé Canada n'a pris aucune mesure pour superviser l'étude et veiller ainsi à ce que l'essai respecte les exigences du protocole en matière de production de rapport et de procédures à suivre afin de protéger la santé des patients.

Santé Canada est responsable de la réglementation et de l'homologation des médicaments au Canada. Un médicament non homologué peut être utilisé seulement à la faveur de mesures spéciales, pour un essai clinique par exemple, quand Santé Canada a approuvé le concept et le protocole de l'étude du médicament. Certains essais éprouvent le médicament dans des conditions « réelles » et constituent par conséquent une source précieuse de renseignements sur les effets indésirables d'un médicament dans des populations particulières, sur les problèmes d'efficacité dans certains milieux, et ainsi de suite.

### Contexte

1. Santé Canada autorise des fabricants à produire et à vendre des médicaments dont l'innocuité et l'efficacité ont été éprouvées. Seuls les médicaments homologués peuvent être vendus au Canada, sauf s'il s'agit de produits utilisés dans des conditions particulières et contrôlés. Un médicament non homologué peut, par exemple, être autorisé dans le cadre du Programme spécial d'accès (aux termes duquel Santé Canada autorise sa vente pour un patient en particulier) ou d'un « essai clinique » visant à obtenir des renseignements sur son innocuité, sur le dosage approprié et sur son efficacité. Un essai clinique s'effectue sous la direction et la surveillance d'un commanditaire (habituellement le fabricant), mais le concept et le protocole de l'étude doivent

être approuvés par Santé Canada. Lorsque le Ministère a approuvé le protocole et a reçu l'information voulue sur les chercheurs que le commanditaire a recrutés, celui-ci a la responsabilité de diriger l'étude et de veiller à ce que les chercheurs respectent le protocole. Le commanditaire est tenu d'informer Santé Canada de tout effet indésirable grave (autre que ceux déjà relevés) ou des décès liés au médicament.

2. Au cours de leurs voyages qui les conduisent dans des endroits hostiles, aux quatre coins de la planète, les membres des Forces canadiennes sont parfois exposés à des risques pour la santé contre lesquels il n'existe pas au Canada de médicaments homologués ou d'autres mesures de protection. Parmi ces risques figurent des maladies rares au Canada, telles que la malaria, ou les dangers pour

*Les vérifications qui ont donné lieu aux autres observations ont été menées conformément au mandat législatif, aux politiques et aux méthodes du Bureau du vérificateur général. Ces politiques et méthodes respectent les normes recommandées par le Conseil sur la comptabilité et la vérification dans le secteur public (CCVSP) de l'Institut Canadien des Comptables Agréés.*

**Autres observations de vérification**

Défense nationale et Santé Canada



## Chapitre 10 – Points saillants

**10.1** Affaires indiennes et du Nord Canada doit encore établir une meilleure correspondance entre le niveau de souplesse des modes de financement et la volonté et la capacité des Premières nations d'assumer la responsabilité des milliards de dollars qui leur sont versés annuellement par le Ministère.

**10.2** Le Ministère ne prend pas de mesures appropriées pour faire en sorte que les allégations d'inconduite, y compris les plaintes et les différends ayant trait aux modes de financement, soient réglées adéquatement. Le recours (mécanisme de règlement) doit être amélioré en tant qu'élément de la reddition de comptes.

**10.3** Le Ministère a indiqué qu'il a ralenti le rythme de mise en oeuvre de l'entente de transfert financier (ETF), un nouveau mode de financement, afin de régler les questions liées à la volonté et à la capacité des Premières nations de l'adopter. Le Ministère a encore un long chemin à parcourir s'il désire atteindre son objectif, à savoir que l'ETF devienne le mode de financement approprié et remplace les autres types de financement. Il devra trouver des moyens d'accélérer le processus de conversion tout en améliorant la coordination du financement avec les autres ministères fédéraux.

### Contexte et autres observations

**10.4** Les modes de financement constituent un élément clé de la relation entre les Premières nations et le gouvernement fédéral. Le Parlement affecte chaque année une somme d'environ quatre milliards de dollars à Affaires indiennes et du Nord Canada afin de financer plusieurs programmes s'adressant aux collectivités des Premières nations. Ces programmes, qui portent sur l'aide sociale, l'éducation, les immobilisations, le logement et le développement économique, sont offerts à environ 600 Premières nations et à d'autres groupes autochtones.

**10.5** Dans notre rapport de novembre 1996, nous avons fait des recommandations sur les modes de financement, y compris l'ETF, et la coordination du financement dans l'ensemble des ministères fédéraux. Nous avons aussi fait des recommandations sur la reddition de comptes et l'adaptation des modes de financement aux besoins du Ministère et des Premières nations.

**10.6** Le présent suivi est axé sur la mise en oeuvre par le Ministère de nos recommandations de 1996. Le Ministère est d'avis que, en ce qui concerne le recours, le suivi s'étend au-delà des questions soulevées en 1996; toutefois, il reconnaît la nécessité de déployer des efforts continus afin d'améliorer certains aspects des modes de financement, y compris la reddition de comptes.

**9.7** En 1994, nous avons insisté sur la nécessité de perfectionner la capacité de gestion et de la rendre plus efficace. Dans ce contexte, la communauté a dressé un profil des compétences pour les gestionnaires en sciences et technologie. Au cours de nos consultations, nous avons noté que la plupart des ministères à vocation scientifique utilisaient leurs propres profils de compétences plutôt que celui élaboré par le groupe de travail. De plus, ces profils servaient presque uniquement à identifier les besoins en formation; en règle générale, ils ne servaient ni à la sélection de gestionnaires, ni à leur promotion, ni à l'évaluation de leur rendement. Les pratiques relevées semblaient indiquer un manque de consensus au sein de la communauté quant aux compétences en gestion inscrites au profil élaboré par le groupe de travail. Cela pourrait éventuellement gêner l'intégration des activités de recrutement et de formation ainsi que les systèmes de récompenses, de promotion et de rémunération prévus par le *Plan directeur pour la gestion des ressources humaines dans les domaines scientifiques et technologiques*.

**9.8** Le Secrétariat du Conseil du Trésor, les ministères et les organismes à vocation scientifique et la communauté scientifique et technologique s'engagent à poursuivre les stratégies et les plans élaborés à ce jour.



## Chapitre 9 – Points saillants

**9.1** Nous sommes satisfaits des efforts déployés par la communauté scientifique et technologique pour donner suite aux recommandations de notre vérification de 1994 et aux préoccupations exprimées dans notre rapport de suivi de 1996. À notre avis, malgré un contexte difficile, la communauté fait preuve de leadership et de persévérance pour régler les questions liées aux ressources humaines que nous avons soulevées.

**9.2** Dans l'ensemble, les travaux accomplis par la communauté depuis notre vérification de 1994 lui permettent de passer à l'action. Mais il reste des défis de taille à relever. La communauté devrait régler en priorité les questions découlant des changements survenus dans son profil démographique qui peuvent affaiblir ou compromettre la capacité du gouvernement en sciences et technologie. Dans ce contexte, la communauté devrait relever le double défi de recruter de jeunes scientifiques et technologues prometteurs et de maintenir en poste le personnel de grande réputation pour les encadrer. La communauté exige donc, et à juste titre, de nouvelles mesures de recrutement externe ainsi que les outils et les ressources nécessaires parce qu'elle pourrait devoir embaucher entre 2 500 et 3 300 employés au cours des cinq prochaines années afin de bâtir un effectif scientifique et technologique tant renouvelé que rajeuni.

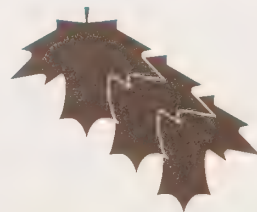
### Contexte et autres observations

**9.3** Au 31 mars 1998, l'administration fédérale comptait près de 20 000 employés techniques et scientifiques répartis dans des ministères, des organismes, des sociétés d'état et des établissements de recherche; ces employés étaient affectés aux activités en sciences naturelles et génie (ci-après la « communauté scientifique et technologique »).

**9.4** La communauté scientifique et technologique contribue d'une façon importante à l'application de la stratégie fédérale en matière de sciences et de technologie. Publiée en 1996, la stratégie met l'accent sur la création d'emplois et la croissance économique, l'amélioration de la qualité de vie des Canadiens et l'avancement des connaissances.

**9.5** La réduction des dépenses et des effectifs au sein de l'administration fédérale a transformé le profil de la communauté scientifique et technologique et a empiré les problèmes de recrutement et de renouvellement de longue date. Le changement survenu dans le profil de l'âge présente un grand défi pour l'avenir de la communauté. Non seulement les scientifiques et les technologues les plus âgés et les plus expérimentés ont quitté le gouvernement depuis 1994, mais les plus jeunes et les plus prometteurs aussi.

**9.6** À la suite de notre vérification en 1994 de la gestion du personnel scientifique, la communauté s'est mobilisée pour élaborer un cadre de gestion et un plan directeur axé sur les résultats en vue de solutionner les problèmes soulevés, tels que la nécessité d'aborder la gestion du personnel scientifique sous un angle plus stratégique, de veiller de manière plus systématique au renouvellement du personnel scientifique et d'assurer le maintien du capital de compétences et de connaissances dans les établissements de recherche. Des groupes de travail ont été mis sur pied pour étudier des questions importantes liées aux ressources humaines. Ils ont recommandé entre autres, au Comité directeur des ressources humaines en sciences et technologie, l'adoption de nouveaux mécanismes et la nécessité d'élaborer des stratégies en ressources humaines pour améliorer la gestion du personnel scientifique et technologique dans les ministères et les organismes à vocation scientifique.



## Chapitre 8 – Points saillants

**8.1** Nous croyons que les efforts déployés par le gouvernement, afin de donner suite aux recommandations du chapitre 16 de notre rapport de 1997 sur la Stratégie du poisson de fond de l'Atlantique, sont satisfaisants.

**8.2** De nouvelles mesures de restructuration et d'adaptation des pêches sont mises en oeuvre. Contrairement à ce que nous avons constaté en 1997, les critères d'admissibilité aux nouvelles mesures sont clairs, logiques et applicables. Le cadre de reddition de comptes établi pour les mesures corrige les faiblesses que nous avions observées à l'époque : les responsabilités des organisations sont maintenant définies, il existe un plan stratégique global et un mécanisme officiel de coordination est prévu.

### Contexte et autres observations

**8.3** La Stratégie du poisson de fond de l'Atlantique (1994-1998) avait pour but de restructurer l'industrie de la pêche dans le Canada atlantique, de façon à ce qu'elle devienne viable sur le plan économique et durable sur le plan environnemental.

**8.4** Près de 1,9 milliard de dollars lui ont été consacrés. La majorité de ces fonds ont été utilisés aux fins du soutien du revenu des quelque 40 000 pêcheurs et travailleurs d'usine touchés par le moratoire sur la pêche au poisson de fond.

**8.5** En octobre 1997, nous pressions le gouvernement de faire un examen des conséquences des décisions prises dans le cadre de la Stratégie, afin d'en tirer des leçons utiles.

**8.6** Ce suivi porte sur les progrès réalisés pour donner suite à nos recommandations de 1997. Certains de ces progrès se situent dans le contexte de la Stratégie et d'autres, dans celui des mesures de restructuration et d'adaptation des pêches qui ont été annoncées en juin 1998.

**8.7** Développement des ressources humaines Canada (DRHC) a terminé l'évaluation du volet Adaptation de la main-d'oeuvre de la Stratégie. Le Ministère a aussi revu la durée de l'admissibilité des participants à la Stratégie. Les ministères disposent maintenant d'une information abondante sur le profil des populations visées par les nouvelles mesures, ce qui contraste sensiblement avec la situation qui prévalait lors de l'élaboration de la Stratégie.

**8.8** À notre avis, la façon ordonnée dont les nouvelles mesures de restructuration et d'adaptation des pêches sont mises en oeuvre représente des progrès satisfaisants.

# La Stratégie du poisson de fond de l'Atlantique

## Les contributions et les subventions



### Chapitre 7 – Points saillants

- 7.1** Nous avons peu d'assurance que toutes les contributions accordées en vertu de la Stratégie du poisson de fond de l'Atlantique (la Stratégie ou LSPA) ont été utilisées aux fins prévues. Celles-ci faisaient partie des mesures actives d'adaptation au marché du travail que gérât Développement des ressources humaines Canada (DRHC).
- 7.2** Bon nombre des lacunes observées ont trait à l'absence de rigueur dans l'évaluation des demandes de contribution et la conclusion des accords, ainsi qu'à l'absence de surveillance de la part du Ministère.
- 7.3** De nombreux dossiers ne contenaient pas de demandes de contribution. Dans d'autres cas, les demandes n'étaient pas suffisamment élaborées pour permettre une bonne évaluation. Certains accords comportaient des données incomplètes, incluaient des coûts inadmissibles ou ne correspondaient pas à la mesure en vertu de laquelle le projet était financé. Il y avait peu d'indices montrant que des visites avaient été faites sur les lieux des projets pour examiner l'état des dépenses.
- Contexte et autres observations**

**7.4** La Stratégie du poisson de fond de l'Atlantique, en vigueur du 16 mai 1994 au 29 août 1998, comportait des mesures pour venir en aide aux personnes touchées par le moratoire sur la pêche au poisson de fond. Environ 150 millions de dollars sur les 1,9 milliard de dollars affectés à la Stratégie ont été consacrés à des mesures actives d'adaptation au marché du travail, telles que la formation, l'aide à la mobilité, les subventions salariales et les primes à l'emploi.

**7.5** Lors de notre vérification de la Stratégie du poisson de fond de l'Atlantique, publiée au chapitre 16 de notre rapport d'octobre 1997, nous n'avons pas couvert ces dépenses. À la suite de la publication de ce rapport, le Comité permanent des pêches et des océans nous a demandé de les vérifier.

**7.6** Notre bureau et le Bureau de vérification interne (BVI) de Développement des ressources humaines Canada se sont entendus pour que ce dernier effectue la vérification des subventions et des contributions accordées en vertu de la Stratégie. Nous avons suivi de près et vérifié les travaux du BVI afin que nous puissions en utiliser les résultats aux fins de ce chapitre.

**7.7** La Stratégie a entraîné, dans un court laps de temps, une augmentation de la charge de travail des agents. En effet, quelque 40 000 participants se sont ajoutés et cela a obligé le Ministère à cerner et à approuver un nombre sans précédent de projets.

**7.8** Plusieurs contributions ont été accordées pour des projets qui n'étaient pas clairement reliés à la Stratégie. Plus de la moitié des accords ont été signés après le début des projets. On a remboursé des dépenses sans justification. Pour plus de la moitié des projets examinés, on n'a pu déterminer si les dossiers avaient été fermés bien que la plupart de ces projets aient été terminés depuis plus de deux ans.

Dans l'ensemble, Développement des ressources humaines Canada est d'accord avec les constatations de la vérification et reconnaît qu'un certain nombre de questions et de préoccupations importantes sont soulevées dans le chapitre. Les mesures prises pour répondre à ces questions incluent l'élaboration de nouvelles politiques et procédures, la formation des gestionnaires et du personnel et l'obtention de ressources nécessaires pour de nouvelles initiatives en vue d'assurer une surveillance adéquate des projets.

Le Ministère a déclaré que la présente étude de cas contribuera aux travaux qu'il mène avec les provinces. Il souscrit en principe à la recommandation de produire un rapport annuel général sur les dépenses engagées pour l'AEFH et le rendement du programme. Il tient à signaler cependant que l'AEFH ne constitue qu'une partie de l'ensemble des programmes pour les personnes handicapées.

6.10 Les partenaires ont encore un important travail à réaliser. Lorsqu'autant d'administrations sont mises en présence, les responsables de la supervision et de la vérification devraient veiller à ce que la qualité de l'information financière et de l'information sur le rendement soit préservée et améliorée.

6.9 Développement des ressources humaines Canada (DRHC) et ses partenaires provinciaux ont entrepris de régler les questions de mise en oeuvre dans un esprit de collaboration. Les provinces se sont engagées à présenter annuellement au Ministère des rapports sur la reddition de comptes mais rien n'a été défini jusqu'à présent en ce qui a trait à la forme, au fond ou au délai de présentation de ceux-ci, et aucun objectif ou cible précis n'a été encore éte fixé pour une période donnée. Aussi recommandons-nous que DRHC établisse un bref rapport annuel général sur l'AEFH, qui comparerait, pour tous les partenaires, les activités, les dépenses, les extrants et le rendement du programme.

6.8 Chaque province a signé une entente avec le gouvernement fédéral. Ensemble, les ententes illustrent plusieurs des éléments d'un mécanisme de collaboration dont fait état le chapitre 5 de notre rapport de 1999. C'est ainsi que, par exemple, les gouvernements se sont entendus sur un processus de planification participative concertée et sur l'évaluation des résultats du programme.

## Contexte et autres observations

6.7 L'Aide à l'employabilité des personnes handicapées (AEPH) est l'autre programme né des discussions fédérales-provinciales de 1997-1998 sur l'union sociale. L'objectif de ce programme à frais partagés moitié-moitié est d'aider les personnes handicapées à surmonter les obstacles qu'elles rencontrent sur le marché du travail. L'AEFH appuie les programmes et les services provinciaux et territoriaux qui aident aussi bien les personnes handicapées à faire les premières démarches vers l'amélioration de leurs compétences qu'à demeurer sur le marché du travail. À ce stade préliminaire de la mise en oeuvre du programme, notre intérêt est de veiller à ce que le nécessaire soit fait pour que l'information fournie par chaque partenaire sur ses dépenses et ses propres programmes soit crédible et permette de comparer les différentes approches et les évaluations de l'efficacité du programme dans son ensemble.

## Aide à l'employabilité des personnes handicapées

Le Ministère a déclaré que le présent chapitre contribuera à ses travaux ayant pour objet d'instaurer un régime redditionnel de la PNE. On est à régler certaines des questions que nous avons soulevées dans notre étude; les autres seront abordées par le gouvernement fédéral en sa capacité de coprésident du groupe de travail fédéral-provincial-territorial sur la PNE.

- Nous croyons que les principaux éléments des rapports sur les résultats de la PNE destinés au public sont la transparence et l'information adéquate, c'est-à-dire que :
- les moyens voulus sont pris pour que l'information communiquée soit crédible et, du moins en ce qui concerne l'information financière, vérifiable;
- les données permettent de déterminer si les objectifs généraux du programme sont atteints;
- les données permettent de comparer les résultats des différentes approches provinciales.

6.6 Il faut aussi déterminer clairement à qui reviennent toutes ces responsabilités et qui donnera l'assurance qu'elles ont été assumées. De plus, les responsables doivent avoir la capacité de mener à bien ce travail.

6.5 Il pourrait y avoir des lacunes dans la qualité de l'information financière et d'autres données. La

# Développement des ressources humaines Canada – La reddition de comptes pour les programmes sociaux conjoints Prestation nationale pour enfants et Aide à l'employabilité des personnes handicapées



## Chapitre 6 – Points saillants Prestation nationale pour enfants

**6.1** La Prestation nationale pour enfants (PNE) représente une nouvelle forme de mécanisme de collaboration entre les provinces (sauf le Québec) et les territoires et le gouvernement fédéral. Un grand défi, pour tous ceux qui ont un rôle à jouer dans la PNE, est de rassurer le contribuable sur le fait que les fonds sont dépensés aux fins voulues, avec un souci d'efficacité et d'efficience et avec des moyens appropriés pour mesurer l'efficacité du programme et en faire rapport. Étant donné les nombreux gouvernements en présence, il est nécessaire de respecter les champs de compétence des différentes parties. Au stade actuel de la mise en œuvre de la PNE, la reddition de comptes doit être, à tout le moins, aussi rigoureuse qu'elle le serait si le programme relevait d'un seul ordre de gouvernement.

### Contexte et autres observations

**6.2** L'objectif de la PNE est de réduire l'étendue de la pauvreté chez les familles qui ont des enfants et d'accroître la participation des parents au marché du travail. Le programme de la PNE ne s'appuie pas sur une nouvelle loi, un contrat ou une entente de contribution. Il consiste à majorer la Prestation fiscale canadienne pour enfants (le supplément de la PNE) au profit des familles à faible revenu; cet investissement, qui a été d'environ 850 millions de dollars en 1998, totalisera 1,7 milliard de dollars en 2000. Pour leur part, les administrations qui versent des prestations d'aide sociale aux familles peuvent réduire ces paiements d'un montant équivalent à l'augmentation de la prestation fiscale. Elles ont convenu de réinvestir les économies réalisées dans des programmes dont les objectifs ont été fixés d'un commun accord et qui profitent aux familles pauvres avec enfants.

**6.3** Il est nettement ressorti des négociations qui ont débouché sur la PNE que les partenaires se sont entendus sur les objectifs généraux des volets fédéral et provincial du programme. Ils se sont aussi engagés à une nouvelle forme conjointe de reddition de comptes au public. Fait distinctif, il ne revient pas à un ordre de gouvernement plus qu'à un autre de rendre compte des résultats. Chacun est responsable du programme dans son ensemble.

**6.4** Au cours des premières années, avant que les résultats des évaluations soient connus, ce sera tout un défi de démontrer que la PNE a contribué à réduire l'étendue de la pauvreté et à accroître la participation de ses bénéficiaires au marché du travail. En évaluant les progrès accomplis, le rapport sur la reddition de comptes pour la PNE devra aussi préciser les cas où des compromis ont été faits entre les objectifs et en signaler les répercussions. Autrement, les lecteurs du rapport pourraient avoir l'impression que tous les objectifs peuvent être atteints simultanément.

# Les mécanismes de collaboration Les enjeux pour le gouvernement fédéral



## Chapitre 5 – Points saillants

**5.1** Les mécanismes de collaboration constituent une solution de rechange aux moyens traditionnels utilisés jusqu'ici par les ministères fédéraux et les sociétés d'État pour exécuter les programmes et fournir les services — solution qui vise à être plus innovatrice, plus rentable et plus efficiente. Lorsqu'ils utilisent les mécanismes de collaboration, l'administration fédérale, les autres paliers de gouvernement et les organisations des secteurs privé et bénévole conviennent de partager les pouvoirs et les autorisations liés à la prise des décisions concernant l'exécution des programmes et la prestation des services.

**5.2** Le recours croissant à ces mécanismes et, de ce fait, l'engagement accru de fonds publics exigent d'accorder, par conséquent, plus d'attention aux risques prévisibles, notamment : l'existence de mécanismes mal conçus, situation minant les chances de succès du projet; des partenaires qui ne remplissent pas leurs engagements; le peu d'attention accordé à la protection de l'intérêt public; une transparence insuffisante; une reddition de comptes inadéquate.

**5.3** Le souci de l'intérêt public, une reddition de comptes efficace et une plus grande transparence sont, à notre avis, des éléments structurels de base de ces mécanismes. Nous présentons, dans le présent chapitre, une liste de questions pouvant être utiles aux parlementaires lorsqu'ils auront à évaluer les mécanismes de collaboration.

### Contexte et autres observations

**5.4** Dans leur quête d'une plus grande efficacité, l'administration fédérale et ses partenaires doivent toujours avoir en tête, et cela est très important, que servir l'intérêt public est le but premier de chaque mécanisme de collaboration et que les services fournis au public doivent être transparents, justes et équitables.

**5.5** Rendre compte de manière efficace, dans le cadre d'une structure de collaboration, est une démarche plus complexe. L'administration fédérale doit rendre compte au Parlement de l'utilisation des autorisations et des fonds fédéraux, rendre compte à ses partenaires de l'exécution de ses engagements propres et, enfin, avec ses partenaires, rendre compte au public des résultats obtenus grâce aux mécanismes de collaboration. À notre avis, cette obligation redditionnelle partagée signifie que plus d'intervenants ont à rendre compte et que cela ne réduit en rien l'obligation redditionnelle du gouvernement.

**5.6** Le recours aux mécanismes de collaboration pour l'exécution des programmes et la prestation des services au public exige souvent une transparence plus grande que celle qu'impose la prestation traditionnelle de services par un ministère. La formule du partenariat peut rendre plus difficile pour les citoyens l'identification des responsables. Par conséquent, l'administration fédérale doit communiquer le plus ouvertement possible l'information sur les ententes, les décisions et les résultats des mécanismes.

**5.7** Le Secrétariat du Conseil du Trésor nous a fait part de son intention de continuer à fournir des avis et à élaborer des lignes directrices sur les mécanismes de collaboration s'adressant aux ministères et aux organismes fédéraux, avis et lignes directrices qui porteront sur bon nombre des enjeux que nous présentons dans le présent chapitre.

crustacés, des décisions sur l'utilisation de la ressource qui sont incompatibles avec le concept d'une industrie économiquement viable.

**4.7** La cogestion, destinée à accroître le rôle, les responsabilités et la reddition de comptes de l'industrie en matière de gestion des pêches, est une pièce maîtresse de la stratégie des pêches de l'avenir du Ministère. Le fait que les participants assument de plus grandes responsabilités pour leur industrie constitue un élément important de la durabilité. Les pouvoirs sont cependant fort peu partagés. Selon nous, la façon dont le Ministère aborde actuellement la cogestion souffre de lacunes.

**4.8** Le Ministère a reconnu l'existence de lacunes dans le cadre de gestion des pêches figurant dans l'actuelle *Loi sur les pêches*. Aucune modification corrective n'a toutefois été présentée à ce jour à la Chambre des communes.

On trouvera dans le présent rapport les réponses de Pêches et Océans à nos recommandations. Soit que le Ministère accepte de donner suite au rapport, soit qu'il indique que des mesures ont été prises pour mettre en œuvre trois de nos quatre recommandations. Le Ministère n'a pas manifesté son intention de donner suite pour le moment à notre recommandation sur la cogestion.



### Chapitre 4 – Points saillants

**4.1** En octobre 1997, nous avons fait rapport des problèmes liés à la gestion, par Pêches et Océans, des pêches du poisson de fond de l'Atlantique. Dans la présente vérification, nous avons constaté que bon nombre de ces problèmes sévissent également dans la gestion, par le Ministère, des pêches des mollusques et crustacés de l'Atlantique. Ainsi, nous avons remarqué que la capacité de capture s'accroît et que la participation des pêcheurs aux pêches des mollusques et crustacés est encouragée par la délivrance de permis de pêche à accès libre. En outre, nous avons relevé des trous dans l'information utilisée pour prendre des décisions sur la ressource ainsi que des lacunes dans le contrôle et la surveillance. Les répercussions globales de ces problèmes ne sont pas évidentes, car la plupart des pêches des mollusques et crustacés enregistrent actuellement de fortes valeurs au débarquement. Toutefois, à notre avis, ce sont là des préoccupations majeures sur lesquelles il faut se pencher afin que les pêches des mollusques et crustacés soient gérées durablement.

**4.2** Les décisions du Ministère ont une forte incidence sur les représentants de l'industrie des pêches et sur les collectivités qui en vivent. Faute de politique sur les pêches qui reflète entièrement les concepts entourant la durabilité, les décisions sont prises au coup par coup et de façon décousue plutôt qu'en fonction d'un cadre global visant une pêche durable. Dans un processus ouvert et transparent, où des principes clairement définis et uniformément appliqués guident la prise de décisions, tous les intervenants auraient l'assurance que leurs intérêts sont pris en compte et que la ressource est protégée à long terme.

**4.3** Nous avons noté que certaines décisions sur l'utilisation de la ressource ne sont pas conformes aux objectifs que le Ministère s'est fixés pour gérer les pêches. En matière de pêches, comme nous l'avons signalé en octobre 1997, le gouvernement doit préciser les objectifs dans la loi. Le Ministère doit mettre en oeuvre un cadre des pêches durables intégrant les facteurs interdépendants à la fois biologiques, économiques et sociaux qui touchent les pêches.

### Contexte et autres observations

**4.4** Dans les années 90, le Canada atlantique a connu un quasi-effondrement de sa pêche commerciale du poisson de fond (morue, aiglefin, gobberge, flétan et divers poissons plats). Par contre, pendant la même période, la valeur des débarquements des mollusques et crustacés (homard, pétoncle, crabe des neiges et crevette) a généralement augmenté. En 1997, la valeur de tous les mollusques et crustacés débarqués au Canada atlantique s'est élevée à 920 millions de dollars, soit 81 p. 100 de celle de tous les débarquements de la pêche commerciale de la région.

**4.5** Le Ministère a déclaré dans ses principaux documents additionnels déposés au Parlement que son objectif est la conservation, c'est-à-dire la protection de la capacité productive de la ressource naturelle essentielle à la pêche. En outre, il a dit viser un objectif économique mais sans indiquer les résultats escomptés. Par ailleurs, le Ministère a déclaré toute responsabilité à l'égard des enjeux sociaux. Or, nous avons constaté que les facteurs sociaux et économiques influencent largement la plupart des décisions sur l'utilisation de la ressource dans le secteur des pêches des mollusques et crustacés.

**4.6** Parmi les objectifs de la stratégie ministérielle des « pêches de l'avenir » il y a celui d'assurer à terme des pêches économiquement viables et autonomes. Toutefois, ces objectifs ne sont pas entièrement pris en compte dans les rapports du Ministère au Parlement. Nous avons relevé, dans le secteur des pêches des mollusques et

**3.6** La Politique visant à informer les utilisateurs sur la qualité des données et la méthodologie est claire et bien structurée, mais l'organisme ne l'applique pas de façon uniforme. Par conséquent, les utilisateurs ne sont pas toujours informés adéquatement des forces et des limites des statistiques. Nous avons observé aussi que Statistique Canada attache une grande importance à la qualité des statistiques dans ses engagements envers le Parlement. Cependant, le dernier *Rapport sur le rendement* de l'organisme, déposé en octobre 1998, fournit une information incomplète sur la qualité des statistiques produites.

Les réponses de Statistique Canada à nos recommandations sont incorporées au présent chapitre. Pour six des huit recommandations, l'organisme accepte de prendre des mesures ou fait remarquer que des initiatives sont en cours. En ce qui concerne les deux autres recommandations, Statistique Canada en approuve l'objectif et indique qu'il examinera ces questions de manière plus approfondie.



## Chapitre 3 – Points saillants

**3.1** Statistique Canada s'est engagé à produire des statistiques de grande qualité. Il a mis sur pied un large éventail de systèmes et de pratiques pour assurer la qualité de ses programmes statistiques et maintenir un climat qui encourage le souci de la qualité dans tout l'organisme. Cependant, il doit mieux documenter la qualité des statistiques qu'il produit et communiquer de l'information à ce sujet, tant au sein de l'organisme qu'à l'extérieur. Statistique Canada doit mieux intégrer ses nombreux systèmes et pratiques liés à la qualité et adopter un mode de documentation plus rigoureux.

**3.2** Statistique Canada utilise un certain nombre de mécanismes d'évaluation de la qualité qui ont été établis, mais ceux-ci ne sont pas appliqués de façon uniforme dans les différents programmes. Nous avons conclu que les mécanismes utilisés à l'heure actuelle, pris individuellement ou dans leur ensemble, ne fournissent pas une information transparente et systématique sur la pertinence des systèmes et des pratiques de gestion de la qualité des programmes statistiques de l'organisme ou sur la qualité réelle des données produites.

### Contexte et autres observations

**3.3** Statistique Canada est chargé de recueillir, de compiler, d'analyser et de publier des données statistiques sur les conditions économiques, sociales et générales du Canada et des Canadiens. Les statistiques qu'il produit appuient l'élaboration, la mise en oeuvre et l'évaluation des politiques, des programmes et des prises de décisions dans tous les secteurs. Elles aident à prendre des décisions éclairées au sujet de questions telles que décider où vivre, quelle carrière poursuivre et comment voter. L'organisme est fort respecté par ses pairs et jouit d'une réputation internationale inégalée au chapitre de l'indépendance, de l'innovation et de la qualité.

**3.4** La rapidité des changements sociaux, économiques et autres accroît la demande de données statistiques fiables et objectives sur un large éventail de questions. Au fur et à mesure que la demande et l'utilisation des systèmes et pratiques de gestion de la qualité devaient pouvoir assurer des données répondant à six critères : la pertinence, l'exactitude, l'actualité, l'accessibilité, l'intelligibilité et la cohérence.

**3.5** En vue de notre vérification, l'organisme a effectué des autoévaluations de quatre grandes enquêtes. La conclusion quant au caractère adéquat de la gestion de la qualité en général a été positive pour chaque autoévaluation. Le travail a été bien planifié et exécuté. Nous avons conclu que dans trois enquêtes sur quatre, les autoévaluations fournissent l'assurance raisonnable que les systèmes et les pratiques de gestion de la qualité sont adéquats. Dans le dernier cas, cependant, nous avons conclu que les faiblesses décelées et les recommandations faites sont plus importantes que ne le laisse croire l'autoévaluation et méritent que la haute direction s'en préoccupe.

**2.8** Le Ministère peut mieux cibler ses vérifications afin de détecter les revenus non déclarés et d'établir de nouvelles cotisations. De plus, la loi offre des possibilités d'améliorer les mesures actuelles visant à dissuader les contribuables de participer à l'économie clandestine.

Revenu Canada a convenu de prendre des mesures pour donner suite à nos recommandations.



## Chapitre 2 – Points saillants

**2.1** Revenu Canada a indiqué que les répercussions fiscales (les impôts et les taxes qui résultent des mesures d'exécution) de ses activités de lutte contre l'économie clandestine se chiffraient à 2,5 milliards de dollars sur cinq ans; toutefois, ces chiffres englobent les résultats tant de ses programmes d'exécution réguliers que de l'Initiative visant l'économie clandestine (l'Initiative). Les répercussions fiscales réellement attribuables à la détection de revenus non déclarés par les 1 000 employés affectés aux activités de vérification liées à l'Initiative sont bien inférieures aux 500 millions de dollars signalés.

**2.2** Il est difficile de déterminer la mesure dans laquelle l'Initiative permet de lutter contre l'économie clandestine, parce que le Ministère ne mesure ni ne communique les résultats de l'ensemble des activités liées à l'Initiative et parce qu'il ne mesure ni ne communique les changements que ces activités ont provoqués dans le comportement des contribuables.

**2.3** Revenu Canada doit évaluer ce que le marketing social pourrait faire pour sensibiliser le public aux coûts sociaux des impôts et des taxes impayés et l'amener à appuyer ses activités de lutte contre l'économie clandestine. Les sondages révèlent qu'un nombre alarmant de Canadiens et de Canadiennes seraient prêts à participer à l'économie clandestine. Le Ministère doit aussi renforcer les activités qui favorisent l'observation volontaire par les entreprises.

**2.4** L'économie clandestine constitue un problème complexe et difficile à régler, et les impôts et les taxes perdus constituent une somme importante. C'est un problème qui exige une attention continue et une énergie soutenue de la part de Revenu Canada et de l'ensemble des Canadiens et des Canadiennes.

### Contexte et autres observations

**2.5** L'économie clandestine donne naissance à l'évasion fiscale et représente des pertes annuelles en recettes fiscales fédérales et provinciales estimées à 12 milliards de dollars. L'évasion fiscale ne constitue pas un crime sans victime. Elle inflige un désavantage concurrentiel aux entreprises honnêtes et, dans certains cas, elle les oblige à fermer. Si on lui laissait libre cours, l'économie clandestine pourrait entraîner une perte de confiance dans l'équité du régime fiscal du Canada. Elle oblige aussi les contribuables honnêtes à assumer le fardeau fiscal de ceux qui trichent.

**2.6** En 1993, Revenu Canada a annoncé une nouvelle initiative pour combattre l'économie clandestine : il a affecté 200 employés à son Programme visant les non-déclarants et les non-inscrits et 1 000 employés aux vérifications des petites entreprises où l'économie clandestine est la plus fréquente. Trente-cinq pour cent du personnel du Ministère affecté à la vérification des petites et moyennes entreprises participe maintenant à des activités de vérification liées à l'Initiative visant l'économie clandestine.

**2.7** L'Initiative, telle qu'elle avait été planifiée, constituait, à notre avis, un moyen équilibré de combattre l'évasion fiscale dans l'économie clandestine. Elle comportait des activités pour promouvoir l'observation volontaire par les petites entreprises, comme des visites d'entreprises dans les collectivités et des consultations auprès d'associations d'entreprises. Elle prévoyait aussi faire participer d'autres ministères fédéraux, les administrations provinciales et municipales et des organisations du secteur privé à des programmes d'échange d'information en vue de mieux faire face à l'économie clandestine.

- 1.7** En vertu de la *Loi sur le système correctionnel et la mise en liberté sous condition*, la mise en liberté dans la collectivité peut revêtir plusieurs formes : la semi-liberté (six mois avant la mise en liberté conditionnelle totale); la mise en liberté conditionnelle totale (au tiers de la peine) et la mise en liberté d'office (après les deux tiers de la peine). Certains délinquants seront maintenus en incarcération jusqu'à l'expiration de leur peine.
- 1.8** Un changement récent permet aux délinquants qui purgent leur première peine sous responsabilité fédérale, mais n'ont pas été reconnus coupables d'un crime violent ou d'une infraction grave en matière de drogue, d'être libérés sous le régime de la semi-liberté à un sixième de leur peine, dans le cadre de la procédure d'examen expéditif.
- 1.9** Nos précédents travaux de vérification, en 1994 et 1996, ont montré des lacunes systémiques de la gestion des activités de réinsertion sociale du Service. Ces vérifications ont mis en évidence des zones de préoccupation telles que les normes de travail, les procédures d'assurance de la qualité, l'information sur le rendement, la mise en oeuvre de changements fondamentaux et les leçons à tirer des réussites et des échecs. Le présent chapitre passe en revue toutes ces questions.
- 1.10** Conformément à l'engagement que nous avons pris devant le Comité des comptes publics en avril 1998, nous avons examiné les changements apportés par le Service à l'Échelle de classement par niveau de sécurité et vérifié si le Service avait mis en oeuvre le nouvel instrument de reclassement de sécurité. Nous avons constaté que les changements apportés à l'Échelle de classement par niveau de sécurité réduisaient les dérogations tout en n'ayant qu'une incidence minimale sur le nombre d'évasions. Le Service vient de mettre en oeuvre l'outil de reclassement tel qu'il s'y était engagé.
- 1.11** En plus de leurs responsabilités à l'égard de la sécurité dans les établissements, les agents de correction supérieurs continuent à ne donner suite que sporadiquement à leurs obligations à l'égard de la réinsertion sociale des délinquants, une lacune qui prive d'un apport essentiel le rapport d'évaluation des délinquants déposé devant la Commission nationale des libérations conditionnelles. Le Service a mis un projet sur pied pour résoudre cette question.
- 1.12** Bien que le Service ait assuré une continuité entre les programmes de réadaptation en établissement et dans la collectivité, sa capacité d'offrir ces programmes dans la collectivité ne lui permet pas de répondre aux besoins de l'heure. La recherche indique que bon nombre des programmes d'intervention qui tentent de répondre aux besoins criminogènes des délinquants sont plus efficaces lorsqu'ils sont offerts dans la collectivité.
- Les réponses du Service correctionnel à nos recommandations sont incluses dans le chapitre. Le Service est d'accord avec les recommandations et dans ses réponses, il indique son engagement de prendre les mesures correctives nécessaires.



## Chapitre 1 – Points saillants

**1.1** Service correctionnel Canada (le Service) a fait des efforts concertés pour donner suite à nos observations de 1994 et de 1996 concernant la gestion des activités de réinsertion sociale des délinquants dont il a la garde. Toutefois, certains secteurs importants exigent d'autres améliorations.

**1.2** Le Service est dans la bonne voie. Il a pris récemment des initiatives de changement dans plusieurs secteurs. Il a notamment renforcé la capacité de son administration centrale à diriger et à coordonner, à l'échelle nationale, les activités de réinsertion sociale des délinquants; il a mis en oeuvre un important projet visant à rationaliser ses activités de réinsertion sociale; il s'est mérité une notoriété internationale pour certains de ses programmes de réadaptation des délinquants; enfin, il a amélioré sa capacité de mesurer les résultats et le rendement de ses activités de réinsertion sociale.

**1.3** En dépit des progrès réalisés, des améliorations sont toujours de mise dans certains secteurs clés; on souhaiterait notamment :

- une acquisition plus rapide des documents officiels requis pour l'évaluation initiale des délinquants;
- une préparation plus rapide des cas en vue de respecter la première date de mise en liberté conditionnelle du délinquant;
- une stratégie opérationnelle claire en matière de programmes d'emploi;
- des rapports de meilleure qualité sur la réinsertion sociale des délinquants à l'intention de la Commission nationale des libérations conditionnelles;
- un meilleur respect des normes nationales régissant la fréquence des contacts avec les délinquants dans la collectivité.

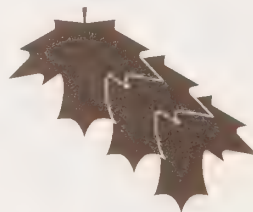
### Contexte et autres observations

**1.4** Le Service correctionnel compte au nombre de ses principales responsabilités la réinsertion sociale sécuritaire des délinquants dans la collectivité. Cela comprend l'évaluation des besoins et du risque que présente le délinquant, la préparation du délinquant en vue de sa mise en liberté; la Commission nationale des libérations conditionnelles, l'accès pour les délinquants mis en liberté dans la collectivité à des mécanismes de surveillance et à des programmes jusqu'à l'expiration de leur peine.

**1.5** Les dépenses globales de réinsertion sociale ont augmenté de 38 millions de dollars (13 p. 100) au cours des trois derniers exercices. Service correctionnel Canada consacre environ 329 millions de dollars ou 28 p. 100 de ses dépenses totales à la réinsertion sociale des délinquants.

**1.6** En 1997-1998, on comptait 13 449 délinquants incarcérés dans des établissements fédéraux et 8 744 délinquants dans la collectivité dont la plupart étaient surveillés par des agents de libération conditionnelle du Service correctionnel. Jusqu'à tout récemment, la proportion des délinquants sous responsabilité fédérale, détenus en établissement ou faisant l'objet d'une surveillance dans la collectivité, est restée passablement constante. Toutefois, en 1997-1998, le nombre de délinquants sous surveillance communautaire a augmenté d'environ 500.





## Avant-propos

Je suis heureux de vous présenter le volume d'avril de mon rapport de 1999. Cet avant-propos est suivi des Points saillants des dix chapitres, qui sont publiés séparément :

1. Service correctionnel Canada – La réinsertion sociale des délinquants
2. Revenu Canada – L'Initiative visant l'économie clandestine
3. Statistique Canada – La gestion de la qualité des statistiques
4. Pêches et Océans – La gestion durable des stocks de mollusques et de crustacés de l'Atlantique
5. Les mécanismes de collaboration : les enjeux pour le gouvernement fédéral
6. Développement des ressources humaines Canada – La reddition de comptes pour les programmes sociaux conjoints : Prestation nationale pour enfants et Aide à l'employabilité des personnes handicapées
7. La Stratégie du poisson de fond de l'Atlantique : les contributions et les subventions
8. La Stratégie du poisson de fond de l'Atlantique : suivi
9. La gestion du personnel scientifique et technologique : suivi
10. Affaires indiennes et du Nord Canada – Les modes de financement des Premières nations : suivi

Les Points saillants sont suivis d'une observation de vérification sur les rôles de la Défense nationale et de Santé Canada dans l'utilisation avant homologation d'un médicament antipaludique. (Les observations de vérification sont des questions particulières dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes publics du Canada qui, selon nous, devraient être portées à l'attention du Parlement.)

Dans les « Questions d'une importance particulière — 1998 » du Rapport de décembre dernier, j'ai indiqué qu'en s'éloignant du modèle bureaucratique traditionnel pour adopter une forme de gestion plus souple, le gouvernement devait continuer à tenir compte des principes suivants : servir l'intérêt public, atteindre les objectifs, assurer la reddition de comptes et la transparence. Les chapitres du présent volume touchent à toutes ces questions, de façon directe ou indirecte.

En particulier, nous constatons que ces principes sont les éléments de base des mécanismes de collaboration. Étant donné que le gouvernement a de plus en plus recours à ces mécanismes pour assurer la prestation des services et l'exécution des programmes, nous avons établi un cadre pour les évaluer. Nous avons examiné deux mécanismes de ce genre qui en sont encore aux tout premiers stades de mise en oeuvre, et nous avons suggéré des améliorations qui peuvent être apportées pour prévenir tout problème dans l'avenir.

Nous faisons également rapport sur plusieurs questions que nous avons traitées dans des rapports précédents. Dans certains cas, le gouvernement a pris des mesures pour améliorer son rendement et il a fait des progrès satisfaisants. Dans d'autres domaines, il a encore du chemin à parcourir. La capacité de tirer des leçons des expériences antérieures et de celles d'autres administrations se dégage tout au long du Rapport comme un facteur clé pour maximiser l'utilisation des fonds publics.







Avant-propos et Points saillants  
Autres observations de vérification

**Avril 1999**





À l'honorable Président de la Chambre des communes :

J'ai l'honneur de vous transmettre ci-joint mon premier rapport de 1999 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(5) de la Loi sur le vérificateur général.

Le vérificateur général du Canada,

A handwritten signature in dark ink, appearing to read "L. Denis Desautels".

L. Denis Desautels, FCA

OTTAWA, le 20 avril 1999

Le Rapport d'avril 1999 comporte 10 chapitres ainsi que l'Avant-propos, les Points saillants et les Autres observations de vérification. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

*Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.*

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Rapport du

Vérificateur général

du Canada

à la Chambre des communes

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**Report of the  
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**Chapter 1**  
Correctional Service Canada –  
Reintegration of Offenders

**April 1999**



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**April 1999**

*This April 1999 Report comprises 10 chapters as well as a Foreword, Main Points and Other Audit Observations. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*

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Copies françaises aussi disponibles

# Chapter 1

Correctional Service Canada

Reintegration of Offenders

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

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# Correctional Service Canada

## Reintegration of Offenders

### Main Points

**1.1** Correctional Service Canada has made a concerted effort to respond to our 1994 and 1996 observations concerning the management of its offender reintegration activities. However, there are some important areas that require further improvement.

**1.2** The Service is now moving in the right direction. It has recently implemented change initiatives in several areas. Among them, it has strengthened the ability of national headquarters to direct and co-ordinate offender reintegration activities Service-wide; implemented a major initiative to streamline its reintegration operations; achieved international recognition for some of its offender rehabilitation programs; and improved its ability to measure the results and performance of its reintegration activities.

**1.3** Progress notwithstanding, improvement is still needed in some key areas:

- more timely acquisition of official documents for initial offender assessment;
- more timely casework preparation to meet the offender's first parole date;
- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and
- improved adherence to national standards for frequency of contact with offenders in the community.

### Background and other observations

**1.4** Correctional Service has as one of its main responsibilities the safe reintegration of offenders into the community. This entails assessing offender risk and needs; preparing the offender for release into the community; reassessing offender suitability for release and making a recommendation to the National Parole Board; and providing supervision and programs for offenders in the community until the end of the sentence.

**1.5** Overall spending on reintegration has risen by \$38 million (13 percent) over the past three fiscal years. Correctional Service Canada spends about \$329 million or 28 percent of its total expenditures for the reintegration of offenders.

**1.6** In 1997–98, there were 13,449 incarcerated offenders in federal institutions and 8,744 offenders in the community, most of whom were supervised by Correctional Service parole officers. Until recently, the proportions of federal offenders in institutions and under community supervision have remained fairly constant. However, in 1997–98, the number of offenders supervised in the community increased by about 500.

**1.7** Under the *Corrections and Conditional Release Act*, there are several different ways that an offender can be released into the community: day parole (six months prior to full parole); full parole (at one third of the sentence) and statutory release (after two thirds of the sentence). Some offenders will be detained until the end of their sentence.

**1.8** A recent change allows offenders serving their first federal sentence who have not been convicted of a violent crime or serious drug offence to be released on day parole at one sixth of their sentence (accelerated parole review).

**1.9** Our previous audit work, in 1994 and 1996, identified systemic weaknesses in the Service's management of reintegration activities. Those audits identified concerns in such areas as work standards, quality assurance procedures, performance information, implementing basic changes and learning from successes and failures. This chapter revisits those issues.

**1.10** As promised to the Public Accounts Committee in April 1998, we reviewed changes made by the Service to the custody rating scale and looked at whether the Service had implemented the new offender security reclassification instrument. We found that the changes to the custody rating scale reduced overrides with minimal impact on the number of escapes. The Service has just implemented a new reclassification instrument, as promised.

**1.11** In addition to their institutional security responsibilities, senior correctional officers still do not consistently perform their required offender reintegration duties, a necessary input to offender assessment reports to the National Parole Board. The Service has undertaken an initiative to address this issue.

**1.12** While the Service has developed a continuum of rehabilitation programs from the institution to the community, its ability to deliver these programs to offenders in the community falls short of current needs. Research indicates that many intervention programs that deal with offenders' criminogenic needs are more effective when delivered in the community.

**Correctional Service's responses to our recommendations are included in this chapter. The Service concurs with the recommendations made and its responses indicate its commitment to take the necessary corrective action.**

## Introduction

**1.13** Correctional Service Canada has two main responsibilities — the incarceration of offenders and their safe reintegration into the community. In 1998, the Solicitor General emphasized that since offenders come from the community and almost all will return there, the best way of protecting Canadians is by preparing offenders for release. Recently, the Commissioner of the Correctional Service directed all managers and officers to focus on what they could do to get the inmates (not just their casework) ready for a safe return to the community.

**1.14** In 1997–98 the Service spent \$329 million or about 28 percent of its total expenditures on activities related to reintegration of offenders. Overall spending on reintegration has risen by \$38 million (13 percent) over the past three fiscal years.

**1.15** The Appendix provides an overview of trends over the last five years

in inmate population, admissions and releases. From 1994–95 to 1997–98 the proportion of federal offenders in institutions and under community supervision remained fairly constant. However, the number of offenders supervised in the community increased in 1997–98 by about 500.

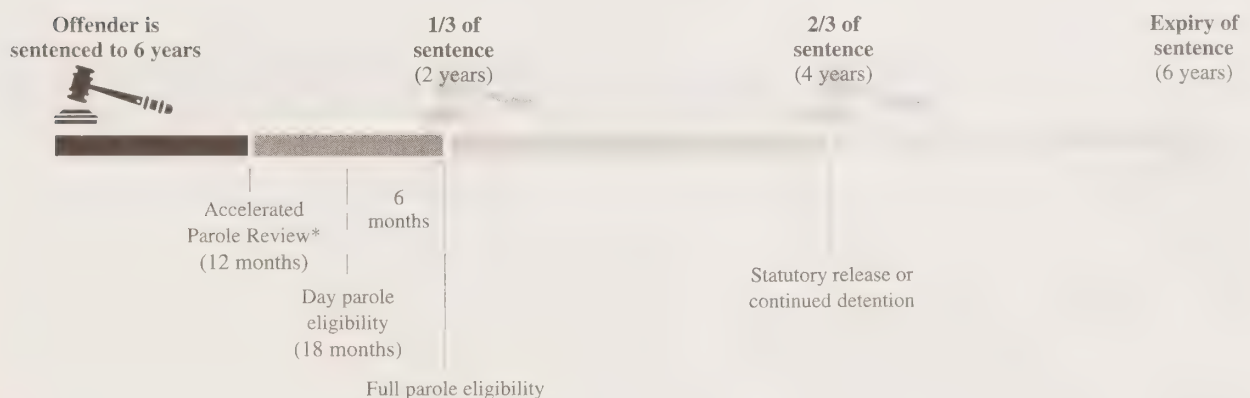
**1.16** Offender admissions have declined by 10 percent in the past five years. The number of releases increased significantly in 1997–98, after declining from 1994 to 1997. The data also show that offenders are being released at later points in their sentences. For example, the number of full paroles from institutions is down and statutory releases are up.

**1.17** The *Corrections and Conditional Release Act* (1992) provides the National Parole Board with the authority for the conditional release of offenders on full parole at one third of their sentence and on day parole six months before the full parole date (see Exhibit 1.1). Offenders serving their first federal sentence who have not been convicted of a violent crime

Since offenders come from the community and almost all will return there, the best way of protecting Canadians is by preparing offenders for release.

Exhibit 1.1

### Milestones in a Fixed-Term Sentence (Six Years)



\* Accelerated Parole Review: All offenders serving their first federal sentence who have not been convicted of a violent crime or serious drug offence must have their parole eligibility reviewed by the National Parole Board using the Accelerated Parole Review process and criteria. For those offenders, day parole eligibility is set at one sixth of the sentence rather than six months prior to the parole eligibility date.

Source: *Corrections and Conditional Release Act*

or serious drug offence can be released on day parole at one sixth of their sentence (Accelerated Parole Review), unless there are reasonable grounds to believe they will commit a violent offence before the end of their sentence.

**1.18** Most offenders are entitled by law to be released (statutory release) after serving two thirds of their sentence, if the offender is not on parole at that time. A small number of offenders will be detained in prison until the end of their sentence, based on a recommendation from Correctional Service to the National Parole Board. The Board detains offenders when it is likely that, if released, they will commit an offence involving death or serious harm, a sexual offence against a child, or a serious drug offence before the end of their sentence.

**1.19** Under the Act, the purpose of conditional release is to contribute to public safety by releasing offenders at a time and in a manner that increases their chance for successful reintegration into the community. There has been a significant decrease in the number of offences committed by offenders while under the Service's supervision in the community, that is, a 37 percent decrease

in offender revocations for new offences since 1993–94. Revocations for violent offences also declined over the same period, from 210 to 161 (see Exhibit 1.2).

### The offender reintegration process

**1.20** Correctional Service uses a case management process to manage the reintegration of offenders (see Exhibit 1.3). The current process consists of a number of stages, including:

- obtaining official documents required for assessing the security risk and the needs of the offender;
- assessing offenders when they enter the federal corrections system to identify the factors that led to their criminal behaviour and developing a correctional plan to address them;
- assessing whether participating in programs or other interventions has helped reduce the risk that an offender will commit another offence after release;
- making recommendations to the National Parole Board on the offender's suitability for release to the community;
- releasing the offender on parole by the National Parole Board, or by law after serving two thirds of the sentence

**Exhibit 1.2**

#### Federal Offenders Under Community Supervision Charged With Violent Offences

Fiscal year ending 31 March

| Revocations for Violent Offence      | 1993–94      | 1994–95      | 1995–96      | 1996–97      | 1997–98    |
|--------------------------------------|--------------|--------------|--------------|--------------|------------|
| Murder                               | 16           | 16           | 15           | 10           | 9          |
| Attempted Murder                     | 9            | 13           | 15           | 7            | 9          |
| Sexual Assault                       | 43           | 49           | 22           | 31           | 23         |
| Major Assault                        | 27           | 25           | 21           | 28           | 34         |
| Hostage Taking                       | 4            | 5            | 3            | 1            | 1          |
| Unlawful Confinement                 | 9            | 3            | 5            | 4            | 6          |
| Robbery                              | 102          | 113          | 71           | 90           | 79         |
| <b>Subtotal</b>                      | <b>210</b>   | <b>224</b>   | <b>152</b>   | <b>171</b>   | <b>161</b> |
| <b>Other Revocations for Offence</b> | <b>1,353</b> | <b>1,065</b> | <b>999</b>   | <b>838</b>   | <b>819</b> |
| <b>Total</b>                         | <b>1,563</b> | <b>1,289</b> | <b>1,151</b> | <b>1,009</b> | <b>980</b> |

Source: Correctional Service Canada

(statutory release) or at warrant expiry (end of sentence);

- providing supervision, further programs and assessment in the community until the end of the sentence; and
- reporting to the National Parole Board on cases where circumstances elevate the risk presented by the offender, and thus warrant review by the Board.

### Focus of the audit

**1.21** The focus of this audit was to follow-up and re-audit key observations and recommendations made in our 1996 Report Chapter 30, Reintegration of Offenders; 1996 Chapter 10,

Rehabilitation Programs for Offenders; and 1994 Chapter 18, Supervision of Released Offenders. As a result, this audit covered the major aspects of offenders' reintegration, from their intake into Correctional Service Canada until the end of their sentence.

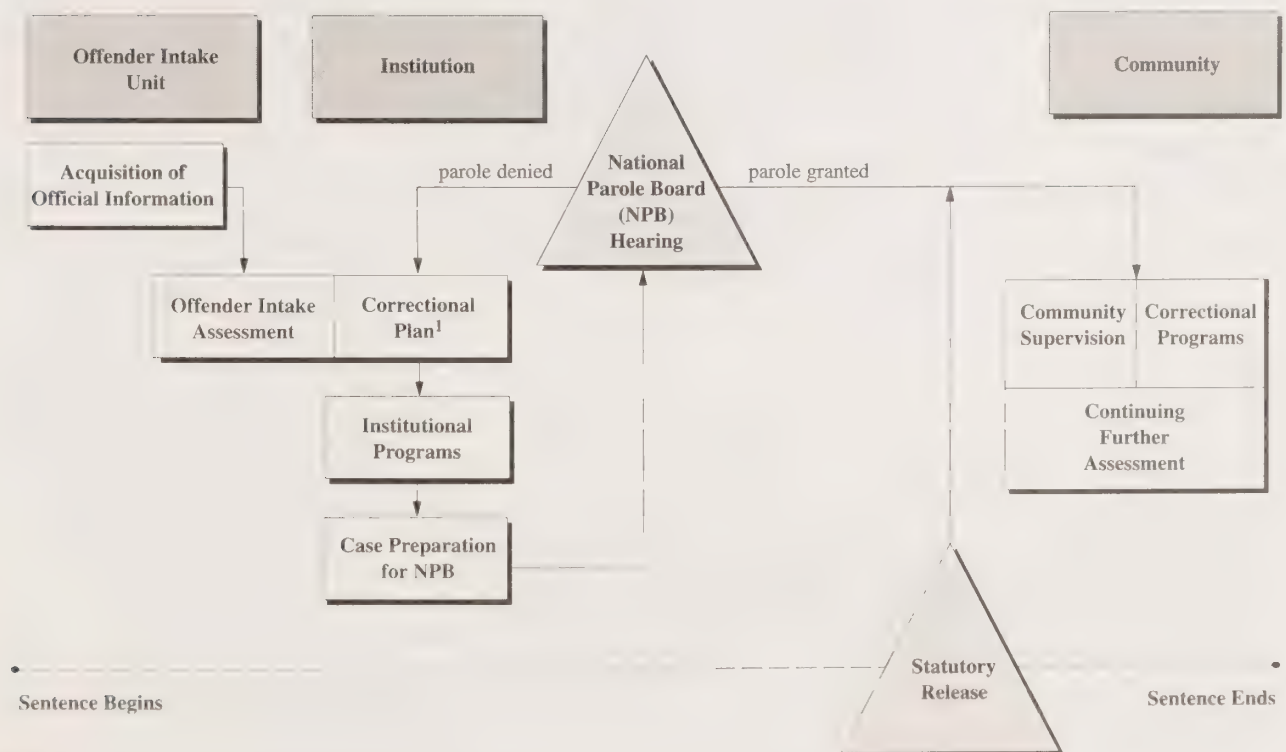
**1.22** Our objectives in this audit were:

- to determine the extent to which Correctional Service has acted on our earlier recommendations; and
- to assess the extent to which the Service's changes in the management of offender reintegration have contributed to sustainable improvements.

**1.23** The audit also included follow-up audit work on the Custody Rating Scale

Exhibit 1.3

### The Offender Reintegration Process



### Note

<sup>1</sup> As a result of Operation Bypass implemented in February 1999, correctional plans are completed in the Service's Offender Intake Units and amended if required to deal with changes in the factors affecting the offender's criminal behaviour.

Source: Office of the Auditor General

and Security Reclassification instrument (components of offender risk assessment) in response to a request by the Public Accounts Committee in April 1998.

**1.24** As in our previous audits, this audit did not include women offenders or issues specific to Aboriginal offenders. Further details on the audit can be found at the end of the chapter in **About the Audit**.

## Observations and Recommendations

### Offender Assessment and Case Management

**1.25** In September 1996, Correctional Service established a Reintegration Taskforce to devise short-term and long-term strategies for improving the management of offender reintegration activities. As a result of the Taskforce's recommendations, in 1997 the Service undertook three national reviews of major components of the offender reintegration process (offender intake, institutional case management and community case management).

**1.26** Taskforce and national review recommendations culminated in the July 1998 approval of a major change initiative called Operation Bypass. The objective of this initiative was to reduce duplication of tasks and information; consolidate offender reports; and strengthen communication and co-ordination between institutional and community parole officers. Several regions piloted aspects of Operation Bypass in 1998. The Service implemented it in all regions in February 1999. This chapter's discussion of our audit observations outlines the details of this initiative and its potential impact on each aspect of the reintegration process.

### Standard for official information is defined

**1.27** In 1996 we indicated that Correctional Service had difficulty obtaining official documents from provinces and municipalities, including police reports, Crown briefs and judges' reasons for sentence. The lack of such information can affect the quality of rehabilitation planning, slow the process of preparing offenders for parole and affect the quality of National Parole Board release decisions. Correctional Service internal investigations showed that missing documentation had been a contributing factor in some incidents involving violent offences committed by released offenders. We recommended that the Service decide on its minimum information needs and, with its partners in the criminal justice system, speed up the acquisition of relevant information.

**1.28** As part of the Operation Bypass initiative, Correctional Service approved a policy requiring the following official documents as a prerequisite to assessing the offender's risk and needs, leading to the development of the offender's correctional plan:

- an official version of the offence (court documents, police report or pre-sentence report);
- the offender's criminal history from police records; and
- the Post-Sentence Community Assessment — a document prepared by Correctional Service community parole officers that includes such elements as offender employment history, family relations, behavioural problems and victim information.

### Document acquisition standards are not being met

**1.29** In 1997, the Service conducted a national review of its intake assessment operations and procedures. It found that not all required documents were being

The Service has established its minimum information needs.

obtained before Offender Intake Assessments were completed. Among other things, the review reported regional variations in the timely acquisition of documents; uneven quality of police reports; and difficulty accessing Crown files. In addition, the Post-Sentence Community Assessments completed by parole officers in the community were of poor quality. The review concluded that the quality of the Offender Intake Assessment “is highly dependent on the experience of the Parole officer who completed it and on the information available at the time the report was completed”.

**1.30** From the date of admission to the Intake Unit, Correctional Service policy allows a maximum of 56 days to complete the Offender Intake Assessment. To ensure that the standard is met, the parole officer needs to receive the necessary documents promptly. The Service compiles data showing when many of these documents (police reports, Post-Sentence Community Assessments and judge’s comments) are received.

**1.31** We examined a sample of these data to assess the level of improvement since our last audit; we found that documents are arriving sooner. However, about one quarter of the documents are still not received within the 56-day time frame (see Exhibit 1.4). We also found that parole officers were completing many Offender Intake Assessments before receiving either the desired police reports or the Post-Sentence Community Assessments (or both).

**1.32** Correctional Service has a standard of 30 to 45 days (depending on the length of the offender’s sentence) to prepare the Post-Sentence Community Assessment, a report generated within the Service itself. Correctional Service data indicate that between July and September 1998, less than 40 percent of the assessments met this standard.

**1.33** In the four regions that we visited, the Service has memoranda of understanding and agreements with provincial governments and municipalities for the timely acquisition of required official documents. Regional intake units are using a variety of techniques to speed up acquisition of documents. For example, all regions have some kind of system to track and follow up specific documents. Some regions have made direct contact with each external agency and agreed on document turnaround targets. They are also pursuing new ways to transmit documents electronically.

**1.34** Although the timeliness of document acquisition continues to improve, much remains to be done. Under Operation Bypass, the need for improvement will increase as the Service shortens its time frame for completing both the Offender Intake Assessment and the Correctional Plan. While Correctional Service Canada is resolving many of the interagency issues with its partners in the justice system, it needs to further improve the results and level of performance.

**1.35** Correctional Service Canada should seek ways to further improve the timeliness of its acquisition of required information on offenders.

Although the timeliness of document acquisition continues to improve, much remains to be done.

Exhibit 1.4

Official Information Available Within 56 Days After Date of Offenders’ Admission\*

(percentage of cases)

| June to August | Police Reports | Judges’ Comments | Post-Sentence Community Assessments |
|----------------|----------------|------------------|-------------------------------------|
| 1996           | 64%            | 58%              | 60%                                 |
| 1997           | 74%            | 68%              | 70%                                 |
| 1998           | 72%            | 76%              | 74%                                 |

\* For male offenders admitted under warrant of committal.

Source: Office of the Auditor General of Canada using data obtained from Correctional Services Canada

*Correctional Service's response: The Service agrees with this recommendation and is actively working to address the issues. In the area of collection of information from other agencies, Correctional Service has no authority to compel those agencies to provide the required information in a timely manner.*

### **The number of offenders incarcerated beyond their first parole eligibility date remains high**

**1.36** Failure to prepare offenders in time for their first parole eligibility date may adversely affect their chances for safe reintegration. It also has cost implications, since federal statutes require Correctional Service to maintain offenders in the least restrictive level of custody. However, the protection of society must remain the paramount consideration.

**1.37** Correctional Service data indicate that as of November 1998, 21 percent (2,782) of incarcerated offenders had not had a National Parole Board release hearing and were past their eligibility date for either day parole or full parole. In some of the cases this may be acceptable — for example, offenders may choose to waive or postpone a hearing for their own reasons. In other cases, however, the reason may be the Service's inability to prepare the offender's case in time.

**1.38** Each year a significant number of scheduled hearings before the National Parole Board are waived or postponed by the offender (see Exhibit 1.5). In 1997–98, 14 percent (1,444) of all day parole hearings and 38 percent (4,617) of all full parole hearings were waived or postponed. Although these percentages dropped between 1996–97 and 1997–98, the overall number still remained high. Correctional Service has yet to analyze why so many hearings are waived or postponed.

**1.39** Furthermore, the National Parole Board can defer a parole hearing by means of an administrative adjournment. The Board does so when it feels that information on the offender is incomplete or the offender's case has not been prepared sufficiently for a hearing. National Parole Board officials estimated that they adjourned about seven percent of all full parole hearings due between April and September 1998.

**1.40** **Correctional Service Canada should regularly analyze the reasons for the number of offenders incarcerated beyond their first parole eligibility date in order to minimize late casework as a reason for cancelling parole hearings.**

*Correctional Service's response: The Service agrees with the recommendation and while it monitors the number of waivers, it will conduct more specific analysis on the reasons for waivers. While the rate of waivers sometimes appears high, it is still the offender's right to apply for or waive reviews for any form of conditional release. The issue of waivers will be further discussed in the context of the Corrections and Conditional Release Act review.*

### **Completing offender programs in time for first parole date remains a challenge**

**1.41** As we did in 1996, in this audit we reviewed how long it takes to process and program offenders serving two- to three-year sentences for their first day

#### **Exhibit 1.5**

#### **Scheduled Parole Board Hearings Waived or Postponed**

(numbers and percentages\*)

|         | Day Parole  | Full Parole | Total Waived or Postponed |
|---------|-------------|-------------|---------------------------|
| 1995–96 | 2,371 (23%) | 6,529 (43%) | 8,900                     |
| 1996–97 | 1,981 (23%) | 6,441 (46%) | 8,422                     |
| 1997–98 | 1,444 (14%) | 4,617 (38%) | 6,061                     |

\*percentages of all hearings that were scheduled

Source: Correctional Service Canada

parole eligibility date. These offenders are eligible for day parole in 189 days, on average approximately six months after sentencing. Because the National Parole Board requires all relevant case documents at least 21 days before a parole hearing, the Service would have to complete prescribed programs, prepare case documentation, and evaluate the offender within 168 days of sentencing.

#### 1.42 Processing the offender through the intake assessment unit is the first step

in the reintegration process. In 1995–96 it took an average of 87 days after sentencing to complete an Offender Intake Assessment (see Exhibit 1.6). Between January and April 1998, this was down to 71 days. As noted earlier, the Service has established the maximum time frame to complete Offender Intake Assessments at 56 days from admission. Correctional Service data indicate that about one third of offenders with two- to three-year sentences are not assessed in time to meet that standard.

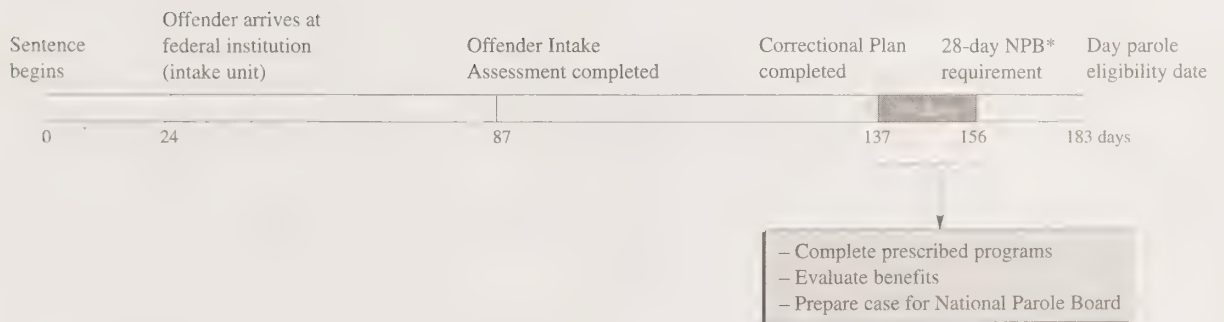
About one third of offenders with two- to three-year sentences are not assessed in time.

Exhibit 1.6

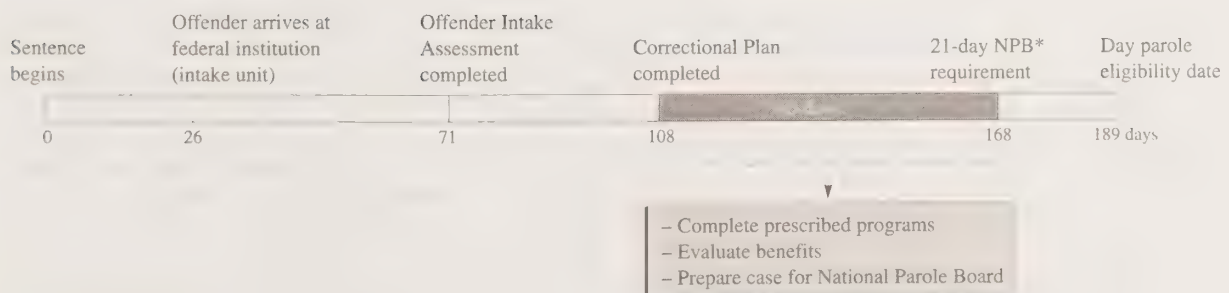
#### Average Time to Complete Case Management Process

*1995–96 and January–April 1998 data are based on a sample of male offenders with 2- to 3-year sentences admitted to federal institutions during these time frames, with sample sizes of 1,800 and 618 offenders respectively.*

##### 1995–96



##### January–April 1998



\* National Parole Board

**Source:** 1995–96 data are from the 1996 Report of the Auditor General (Chapter 30). January to April 1998 data were obtained from Correctional Service's offender management system.

**1.43** The second step in the process is the completion of correctional plans. The offenders are then moved from intake units and placed in penitentiaries, where they can participate in prescribed rehabilitation programs. In 1995–96 it took 137 days to complete a correctional plan. Between January and April 1998, this was down to 108 days. The Operation Bypass standard is now 70 days.

**1.44** We estimated in 1996 that, on average, three rehabilitation programs were prescribed for low-risk/low-need offenders, and the shortest possible time in which they could complete the three programs was 105 days. In 1996, only 19 days were available for offenders to complete programs before their earliest eligibility date for day parole. Although this had increased to 60 days by 1998, there was still not enough time to complete prescribed programs by the earliest possible parole date.

**1.45** Correctional Service expects that Operation Bypass will address this problem by having the correctional plan done in the Intake Unit and the community strategy completed before the offender's release. As a result, the Service forecasts that the time available for programs, assessments and report preparation before the National Parole Board's cut-off date will increase from the current 60 days to 106 days.

**1.46** **Correctional Service's Canada should further improve the efficiency and timeliness of its offender case management and report preparation to meet its approved time standards.**

*Correctional Service response: The Service agrees with this recommendation and has taken steps to improve efficiency and timeliness. The Auditor General has noted improvements to that effect. The results of reintegration operations will be regularly reviewed to monitor progress and determine if adjustments are required.*

### **Parole officer training is improving**

**1.47** An effective offender reintegration process requires both competent parole officers and the involvement of senior correctional officers. In 1996 we found that training for parole officers was inadequate, and correctional officers were not fulfilling their case management responsibilities.

**1.48** We noted that while parole officers received only eight days of orientation training, many did not begin their initial training until after starting their job. Our follow-up work indicates that the amount and variety of training available to parole officers has increased to some extent. Ten days of orientation training is now a formal requirement for new officers. In 1996–97, 60 new parole officers received orientation training in reintegration; this rose to 232 in 1997–98. The Service indicates that about 200 new officers have been trained from April 1998 to January 1999.

**1.49** Officers' participation in such non-mandatory courses as risk assessment and quality assurance has also increased. In general, experienced officers have received less reintegration training annually than new officers. Plans are under way to design and provide refresher training for experienced officers in the near future.

**1.50** The Service is now providing training for the implementation of Operation Bypass to about 4,000 staff. In addition, existing orientation training for parole officers is being redesigned as a proposed program of at least 20 days.

### **Senior correctional officers are still not fulfilling their case management responsibilities**

**1.51** The offender reintegration process requires teamwork between parole officers and senior correctional officers (senior staff with security responsibilities) in institutions. Their collaboration and exchange of information is crucial for

them to understand changes in offenders' attitudes and behaviours and to prepare assessment reports for the National Parole Board.

**1.52** In 1996 we observed that senior correctional officers were not consistently performing the case management duties required of them by Correctional Service policy, despite management's continuing awareness of the problem. These officers are expected to, among other things, complete clear, concise reports for case management, inform colleagues of significant incidents or behavioural changes of inmates, and participate in the assessment and planning of case management for inmates.

**1.53** Our audit work in four regions found a wide variance in the involvement of senior correctional officers in offender case management and reintegration, and in their support for it. Senior correctional officers continue to perform these duties inconsistently. Parole and senior correctional officers we met cited a lack of time and training, particularly in such areas as computer skills, as reasons why correctional officers have not adequately performed their duties in offender case management.

**1.54** Correctional Service has recently revised a Unit Management Accountability Matrix to further clarify national policy in this area. The Matrix outlines in detail the responsibilities of senior correctional officers and parole officers in light of the operational changes required by the Operation Bypass initiative. Regional management has agreed to these changes and plans to implement the matrix in early 1999.

**1.55** **Correctional Service Canada should ensure that senior correctional officers perform their offender case management duties, as required by policy.**

*Correctional Service's response: The Service agrees with this recommendation.*

*The decision in April, 1998 to recruit 1,000 additional correctional officers was made in large part so that senior correctional officers can fulfill their case management duties. The revised Division of Responsibilities Matrix was implemented in February, 1999. In the past, the attention and commitment required on the part of CSC management to deal with this issue was lacking, and the Service is resolved to do better. This will require close and regular monitoring of performance against the new matrix, and firm and fair action regarding both compliance and non-compliance with it.*

## Offender Programs

**1.56** The Service has a wide range of rehabilitation programs to treat offenders in order to reduce offender risk. These programs can be broken into two broad categories: intervention and employment. Intervention programs have been developed to address characteristics related to criminal behaviour. They deal with such areas as treatment for sex offenders, substance abuse, family violence initiatives and living skills. Employment programs are designed to enhance the offender's employability on release, and also serve to keep them busy with meaningful work during incarceration. They include vocational training, prison industries (CORCAN), adult education and Institutional Services (areas such as the kitchen, laundry, institutional maintenance and stores).

**1.57** In 1996 we concluded that both intervention and employment programs lacked a management framework by which senior management could reassess and strategically reallocate funds. We had expected that the Service would have mechanisms in place to monitor both the effectiveness and the costs of all programs. This, in turn, would enable management to verify progress toward strategic objectives and to make any necessary adjustments.

**We found a wide variance in the involvement of senior correctional officers in offender case management and reintegration.**

**Intervention programs  
are being  
internationally  
accredited.**

**Cost information for rehabilitation  
programs has improved**

**1.58** Our previous audit indicated that Correctional Service had limited information on the costs of its rehabilitation programs. In April 1998, national headquarters implemented a new system for capturing the costs of offender programs. This will improve the Service's ability to collect and assess program costs and cost trends.

**1.59** Exhibit 1.7 compares most rehabilitation program expenditures for 1994–95 and 1997–98. Total expenditures

were \$110 million in 1994–95 and \$126 million in 1997–98. The costs of intervention programs increased by \$6 million (18 percent) between 1994–95 and 1997–98. Costs of employment and education programs were \$8 million greater (22 percent) in 1997–98 than in 1994–95.

**A framework is in place for evaluating  
intervention program effectiveness**

**1.60** For the past 10 years, Correctional Service has made a concerted effort to provide intervention programs that have a potential for reducing

**Exhibit 1.7**

**Rehabilitation Programs  
Expenditures**

(\$ millions)

| <b>Intervention Programs<sup>1</sup></b>                      | <b>1994-95</b> | <b>1997-98</b> | <b>Increase</b> |
|---|----------------|----------------|-----------------|
| Sex offender  | 9              | 10             | 1               |
| Substance abuse   | 8              | 8              | –               |
| Locally designed  | 3              | 4              | 1               |
| Living skills   | 5              | 5              | –               |
| Administration  | 3              | 5              | 2               |
| Other <sup>2</sup>  | 6              | 8              | 2               |
| <b>Subtotal</b>   | <b>34</b>      | <b>40</b>      | <b>6</b>        |
| <b>Employment and Education</b>                               |                |                |                 |
| Basic adult education   | 13             | 14             | 1               |
| Vocational training   | 4              | 4              | –               |
| Administration for education and vocational training          | 3              | 3              | –               |
| CORCAN (prison industries) <sup>3</sup>                       | 16             | 23             | 7               |
| <b>Subtotal<sup>4</sup></b>                                   | <b>36</b>      | <b>44</b>      | <b>8</b>        |
| <b>Other Activities</b>                                       |                |                |                 |
| Social and cultural programs (visits, hobbycraft, recreation) | 14             | 15             | 1               |
| Inmate pay  | 20             | 20             | –               |
| Chaplaincy  | 6              | 7              | 1               |
| <b>Subtotal</b>   | <b>40</b>      | <b>42</b>      | <b>2</b>        |
| <b>Total</b>  | <b>110</b>     | <b>126</b>     | <b>16</b>       |

**Notes**

<sup>1</sup> Except for CORCAN, figures above exclude regional and national headquarters management and administration.

<sup>2</sup> Aboriginal programs, family violence programs, community psychological counselling.

<sup>3</sup> For the purpose of this exhibit, CORCAN's costs consist of a training and correctional fee paid to it by the Service (\$18 million in 1997–98) and CORCAN's use of borrowing authority (\$7 million in 1997–98). They exclude interest (\$1 million in 1997–98) on borrowings paid to the Consolidated Revenue Fund by CORCAN. Its annual financial statements are the best source of information to understand its overall financial results.

<sup>4</sup> The training expenditures associated with offenders employed in institutional and offender services (i.e. kitchen, groundskeeping) are not included.

**Source:** Correctional Service  
Canada

recidivism. These programs are delivered mainly in institutions, although some continue after the offender's release into the community.

**1.61** Under the new policy on rehabilitation programs, each program that targets offenders' criminogenic factors and contributes to their rehabilitation shall have clearly articulated objectives, criteria for the selection of participants, a process for evaluating participants' progress, and a process for measuring program effectiveness. Programs are to be delivered as they were designed, and by trained, qualified staff.

**1.62** Using these criteria for programs, Correctional Service is now setting up panels of internationally recognized experts in both corrections and specific subject matters (such as substance abuse); the panels provide independent accreditation of programs as state-of-the-art. Programs will be reaccredited every five years, with site accreditations on a three-year cycle. If a program at a local site is not accredited, regions are being advised to upgrade it so that it can meet accreditation standards or to discontinue it and switch to an accredited national program. This is to ensure that all programs being delivered are equally effective.

**1.63** Exhibit 1.8 summarizes the programs the Service has submitted for accreditation to date, as well as the results. Some programs have been accredited; others have been accredited with conditions that are to be satisfied within a stated time frame; and some have not been accredited and must be resubmitted at a future date. As one of the additional benefits of the accreditation process, the Service has identified an overprescription of institutional substance abuse programs. This is now being addressed.

**1.64** The information used to present programs to the accreditation panel will provide the basis for subsequent

evaluations of the programs' impact on inmate recidivism. An evaluation of substance abuse programs is currently being completed. These evaluations, combined with information on actual program costs, should enable management to make any adjustments needed to fulfil intended policy direction.

#### More intervention programs in the community are needed

**1.65** According to research, many intervention programs that deal with offenders' criminogenic factors are more effective when delivered in the community setting than in the institution. In 1996, we stated that the Service had not established a continuum of programs from the institution to the community to properly support offenders in their transition to the community.

**1.66** Correctional Service is seeking a more balanced approach to institutional and community programming for

**Correctional Service is still seeking a more balanced approach to institutional and community programming for offenders.**

Exhibit 1.8

Status of Intervention Programs Submitted for Accreditation

| Programs  | Status  |
|---|---|
| Substance Abuse   | <ul style="list-style-type: none"> <li>2 national programs accredited</li> <li>a number of local programs still to be reviewed</li> </ul>   |
| Living Skills   | <ul style="list-style-type: none"> <li>2 national programs accredited with conditions to be met (anger and emotion management and cognitive skills)</li> <li>more national programs to be reviewed</li> </ul> |
| Sex Offender  | <ul style="list-style-type: none"> <li>1 local program fully accredited</li> <li>2 local programs not accredited, to be revised and resubmitted</li> <li>next panel will review 4 more programs</li> </ul>    |
| Offender Violence   | <ul style="list-style-type: none"> <li>next panel will review 4 programs</li> </ul>   |
| Family Violence   | <ul style="list-style-type: none"> <li>a panel to review these programs is planned for 2000</li> </ul>  |
| Other Programs – i.e. Women Offenders, Aboriginal Offenders | <ul style="list-style-type: none"> <li>need for accreditation is being assessed</li> <li>if needed, strategy will be developed in consultation with stakeholder groups</li> </ul>                             |

Source: Correctional Service Canada

offenders. The objective is to deliver in institutions only correctional programs needed to reduce the offender's risk upon release. Community programs include maintenance and "booster" programs that build on institutional programs, as well as programs better suited to delivery outside the institution. The Service has developed intervention programs in the community that address substance abuse, treatment for sex offenders, cognitive skills, violence prevention and family violence.

**1.67** Implementation of this change in approach has begun. Spending on offender programs in the community remained at generally the same level from 1994–95 (\$8.2 million) to 1997–98 (\$8.4 million). But it decreased as a percentage of the total spending on all intervention programs, which grew from \$34 million to \$40 million over the same period. In its National Capital Accommodation and Operations Plan for 1999–2000, the Service acknowledges that its community organization is not adequately structured to deliver correctional programs and its community program resources are insufficient to meet current needs.

**1.68** As one of the requirements for program accreditation, the content of institutional programs is to be continued and reinforced in the community. The Service has determined that some released offenders with substance abuse problems are not receiving required follow-up treatment programs in the community. This came to light during the current program accreditation process and is now being addressed.

**1.69** There are obstacles to effective delivery of community programs. Typically, the Service has delivered such programs to groups of about 10 offenders. Often there are not enough offenders with similar programming needs in any given area (except in large urban centres) to make such groups viable. The Service is considering alternative approaches with smaller group sizes (down to

four offenders) in smaller cities and towns, and individual consultations delivered by trained community parole officers for offenders released to rural communities. These changes will make the delivery of programs more costly on a per capita basis but nevertheless more cost-effective than continued incarceration.

**1.70** In 1996 we also noted specific areas where offenders with identified needs were not receiving required programs in the community. The Service does not yet have data to show whether this gap has been addressed. It has modified its information systems to provide such data in the future. However, Correctional Service indicated that it now requires that parole officers in institutions plan programs and interventions to manage risk in the community.

**1.71** **Correctional Service Canada should ensure that there is an appropriate balance between institutional and community intervention programs.**

*Correctional Service's response: The Service agrees with this recommendation. CSC has recognized the problems and adjusted the National Capital Accommodation and Operations Plan to secure additional resources in 1999–2000 to increase program capacity in the community. This will improve the balance between institutions and the community.*

**An overall strategy for employment programs is needed**

**1.72** Research indicates that the risk of re-offending is much greater among offenders with unstable employment patterns than those with a stable employment history. The Service provides employment programs such as adult basic education, vocational training, CORCAN (prison industries), Institutional Services such as kitchen, laundry, maintenance and stores, and services to offenders such as recreation and library services. Exhibit 1.9 provides the results of a Correctional

Service national survey that estimated offenders' participation in these employment areas in 1997. As well, the importance of keeping offenders busy in a meaningful way in the institutional setting should not be minimized.

**1.73** In 1996 we stated that Correctional Service did not have a coherent strategy for employment programs. Resources dedicated to these programs were not well managed and the Service did not have the ability to make any needed trade-offs among all employment programs, including CORCAN.

**1.74** Since our 1996 audit, Correctional Service has undertaken a number of studies to examine the state of all employment programs. Some critical themes have emerged from this work:

- The cost effectiveness of employment programs in reducing recidivism is not known.
- Offenders' employment needs are not consistently well identified.
- Inmates are not systematically assigned to work based on their needs.
- Parole officers do not generally see work as a valid correctional intervention.
- There is no accountability for the extent to which an inmate's needs are addressed.
- There is no continuum between institutional and community employment.

**1.75** These studies have recommended that the Service adopt practices to ensure that the validity and correctional value of employability programs match their costs, as it has for intervention programs. Senior management recently approved the creation of two short-term task groups to explore these issues of offender employment.

**1.76** In their January 1999 report to the Executive Committee, the task groups

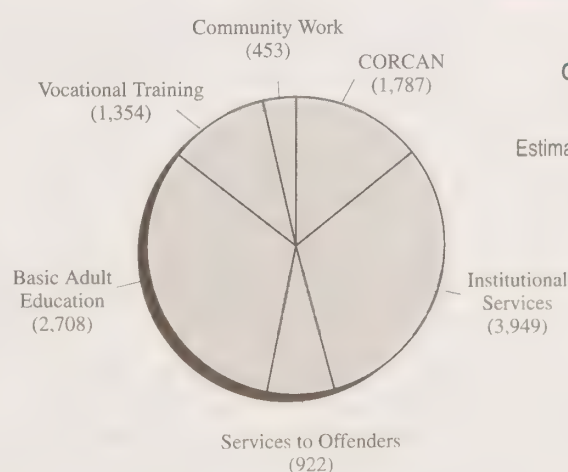
made several key recommendations related to offender employment. Some key messages in this report included the following:

- inmate employment needs should be better assessed and entered consistently in the correctional plan;
- work assignments should be meaningful and should be seen as a correctional intervention and managed accordingly;
- Grade 12 should be the new education norm for offenders (previously Grade 10); and
- inmate career planning, job search and community employment assistance need improvement.

**1.77** The Service continues to spend a significant portion of its rehabilitation program expenditures on employment programs. However, little information is available on the cost effectiveness of various types of employment programs. Uncertainty remains about the relative priority of employment programs and their role in effective reintegration of offenders.

**1.78** Correctional Service has invested much of its effort over the past three years

**Uncertainty remains about the role of employment programs in effective reintegration.**



**Exhibit 1.9**

**Offender Participation in Employment Programs**

Estimate as of September 1997  
(full-time equivalents\*)

\* A full-time equivalent represents one offender working full-time for one year. Two offenders each working half a year represent one full-time equivalent.

**Source:** Correctional Service Canada

in the institutional offender intake and case management processes. It has made progress in setting a strategic direction for intervention programs and establishing an accreditation process to ensure their quality. However, a clear operational strategy for employment programs is needed.

**1.79 In its strategic planning of offender programs, Correctional Service Canada should clarify the role that employment programs have in offender reintegration and should manage and fund these programs accordingly.**

*Correctional Service's response: The Correctional Service recognizes that employment assignments must be treated in the same manner as other correctional programs. With effective planning and scheduling of all interventions during the initial assessment process, employment assignments should complement other correctional interventions. CSC is confident that the work currently under way will effectively address the management of employment programs within the Service.*

**Offenders with employment needs are not targeted for suitable programs**

**1.80** CORCAN provides a good illustration of the need for clear direction in employment programs. In 1996 we examined CORCAN in some detail because of its unique status in the Service as a special operating agency, and the level of its expenditures. We followed up in this audit with the same focus, namely, CORCAN's ability to train properly the inmates who need training most, and its financial self-sustainability.

**1.81** CORCAN's charter states that one of its main objectives is to provide offenders with work-related training and work experience in accordance with needs identified in their correctional plans. In 1996, we reported that CORCAN had not targeted offenders who lacked

employability skills. In the majority of cases we examined, neither the files nor, more specifically, the offender's correctional plan indicated that the offender needed the employability training provided by CORCAN.

**1.82** Offenders are evaluated during Intake Assessment to identify the level of their employment needs as considerable, some or no needs. In this audit, we examined the employment needs of a random sample of 1,526 offenders working for CORCAN in institutions at various security levels (see Exhibit 1.10). We found that the majority of these offenders had at least some employment needs. We also noted that offenders with considerable employment needs constituted less than a quarter of the CORCAN work force in minimum and medium security institutions. In maximum security institutions, about half of the offenders working for CORCAN had considerable employment needs.

**1.83** In the regions we visited for this audit, we found that many institutions still have no clear process for matching identified offender needs for employability skills with employment programs. While inmates are encouraged to participate in employment programs, their participation is voluntary. Inmates are generally left on their own to look for work in the institution. CORCAN instructors assess their need for workers and seek those inmates best suited to the jobs. Many CORCAN officials do not easily have access to correctional plans. In two institutions, we compared the employment needs of offenders working for CORCAN with those of offenders working in other institutional jobs. We found no significant differences in levels of need.

**1.84** To be successful, an employment program needs to deliver the right kind of training to the most needy offenders, and for a long enough period to make a difference. However, offenders tend not to work for CORCAN for very long. We

Many institutions still have no clear process for matching offender's employment needs with programs.

examined the employment records of offenders released between April and October of 1998 who had worked for CORCAN. We found that two thirds of these offenders had worked for CORCAN for less than six months over their entire period of incarceration. About half of their job assignments were for three months or less. Neither the Service nor CORCAN has studied the minimum length of work experience needed to make a difference in an offender's employability.

### **CORCAN's self-sustainability is still in question**

**1.85** As a special operating agency, CORCAN has a continuing goal to attain financial self-sustainability. The Service pays CORCAN a training fee of about \$18 million per year for the employment services it provides to inmates. When CORCAN became a special operating agency, it was given access to a \$45 million revolving fund to be used to acquire capital and cover any operating losses. Approximately \$12 million remains in its revolving fund.

**1.86** In 1996 we concluded that CORCAN was not meeting its goal of financial self-sustainability. Between

1994–95 and 1997–98, it increased the employment of offenders by 21 percent and lowered its cost per offender by 29 percent. Over the same period, it had cumulative operating losses totalling \$12 million (see Exhibit 1.11). CORCAN projects further losses over the next two years.

**1.87** When it approved CORCAN's creation in 1992, the Treasury Board stipulated that initially CORCAN would not pay for institutional structures and services, agricultural land and corporate services. A fee structure for these costs was to be developed and implemented in 1995–96; this has not yet been done. If it were, we project that CORCAN's costs would increase by millions of dollars, directly affecting its financial self-sustainability.

## **Community Supervision**

### **Supervision of offenders in the community is crucial**

**1.88** Supervision in the community is the final link in the offender reintegration process. It is the last point at which the system can directly influence or control offenders. It is also the point at which offenders are separated least from the

| Level of Employment Needs* | Minimum Security Institutions | Medium Security Institutions | Maximum Security Institutions |
|----------------------------|-------------------------------|------------------------------|-------------------------------|
| Considerable               | 19                            | 25                           | 46                            |
| Some                       | 36                            | 39                           | 39                            |
| None                       | 32                            | 29                           | 12                            |
| Asset                      | 13                            | 7                            | 3                             |
| <b>Total</b>               | <b>100%</b>                   | <b>100%</b>                  | <b>100%</b>                   |

\* The Correctional Services rates needs into different levels of severity from "considerable need for improvement", "some need for improvement", "no immediate need for improvement" to "seen as an asset".

**Sample:** 1,526 offenders working in institutions at various security levels:

minimum – 410  
medium – 939  
maximum – 177

**Note:** Excluded are 160 offenders whose employment needs were not readily available.

### **Exhibit 1.10**

#### **Employment Needs of Offenders Working for CORCAN**

October 1998

**Source:** Correctional Service Canada

**Most offenders will complete their sentence in the community without re-offending.**

public and therefore present the greatest risk to society.

**1.89** Virtually all offenders currently in prison will some day be released into the community. Experience shows that most will complete their sentence in the community without re-offending. Nevertheless, when an offender in the community commits a violent offence, the lives of not only the victims but also their families can be shattered.

**1.90** In the Auditor General's 1994 Report, we indicated that it was crucial that supervision of offenders in the community be managed well. However, we noted that the Service management was not giving this area of corrections enough attention. We concluded that the senior management of the Service needed to provide more direction and guidance for the supervision of offenders in the community.

**More focus is placed on community supervision**

**1.91** We recommended in 1994 that Correctional Service designate a senior official who would report directly to the Commissioner and be responsible for managing improvements in the practices

for supervising offenders in the community.

**1.92** In November 1994, an advisor on community corrections was appointed. He chaired the National Community Corrections Council, whose objective was to enhance the contribution of community corrections to the safe reintegration of offenders in the community. The Council consists of Correctional Service senior managers in the community and representatives of non-government organizations.

**1.93** A permanent Director at headquarters subsequently replaced the position of advisor. Reporting to the Director General, Offender Programs and Reintegration, he is responsible for community corrections and chairs the National Community Corrections Council.

**1.94** In April 1997, most parole districts created the position of reintegration manager to improve the efficiency and effectiveness of the reintegration process. The role involves conducting special projects, monitoring caseloads and liaising with reintegration managers in the institutions.

**Required frequency of contact with offenders is still not maintained**

**1.95** In 1994, we observed that face-to-face contact with the offender, as

Exhibit 1.11

**CORCAN's Financial Performance**

(\$ millions)

|   | Actual  |         |         |         |         | Planned |         |
|---|---------|---------|---------|---------|---------|---------|---------|
|   | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 |
| Revenue   | 52      | 52      | 56      | 67      | 76      | 75      | 83      |
| Expenditures  | (54)    | (59)    | (58)    | (67)    | (79)    | (78)    | (84)    |
| Profit or (Deficit)                                 | (2)     | (7)     | (2)     | 0       | (3)     | (3)     | (1)     |
| Unused portion of \$45 million limit revolving fund | 18      | 17      | 18      | 18      | 12      | N/A*    | N/A     |

\* Figures not available

**Source:** Actual figures from Public Accounts of Canada. Planned figures provided by CORCAN.

well as information obtained from the offender's family, employer and program officers, were key components of offender supervision in the community. The average time available for direct supervision of offenders varied widely among district and local offices. We concluded that resources for supervision were not allocated appropriately.

**1.96** In February 1998, the Correctional Service found that there were still problems in achieving the frequency of contact with offenders that is required by policy. The percentage of offenders who were not contacted with the required frequency varied from a low of 11 percent to a high of 38 percent across the five regions.

**1.97** In November 1998, we selected a random sample of 150 offenders under community supervision in five major urban centres. These were offenders considered by the Service to require the most frequent contact. The percentage of offenders in our sample who were not contacted with the required frequency ranged from 10 percent to 20 percent. These results are particularly significant given that our sample population was made up of offenders who require close supervision.

**1.98** One way to address this would be to ensure that parole officers in the community have reasonable caseloads. As a result of significant variances in parole office caseloads, Correctional Service recently initiated a study to establish a system for determining appropriate workload levels. The outcome of the study was a community workload formula that uses data from the automated offender information system. We applied this formula to June 1998 data on parole officer workloads and found that it would result in a more balanced distribution of caseloads than in 1994. The Service plans to approve and implement the formula during 1999.

**1.99** Correctional Service Canada should ensure adherence to the standards for frequency of contact with offenders required by its policy, and should implement the new workload formula as planned.

*Correctional Service's response: The Service agrees with this recommendation. CSC will continue to regularly audit the application of the supervision standards to determine if they are being met and will take firm and fair action regarding both compliance and non-compliance. The workload formula, a method for allocating resources based on activities required to supervise offenders, will be implemented nationally in June 1999.*

**Approaches vary in managing offenders who need a high level of supervision**

**1.100** In our 1994 Report we expressed concern that the Service was not identifying high-risk offenders consistently and accurately. During that year, the Service developed a course in risk assessment and provided training to all case management officers by the end of the fiscal year. Included in the course material was the National Parole Board's definition of risk, which states that risk is determined on the basis of two primary considerations:

- an assessment of the likelihood that the offender will re-offend; and
- a determination that, should the offender re-offend, there is no undue risk to the public, taking into consideration the nature and seriousness of the anticipated offence.

**1.101** We noted in 1994 that there were several different approaches used to manage these offenders in the community. In one area office, two people were assigned full-time to the high-risk caseload. Each offender was seen twice a week by a team of two parole officers — once in the office and once in the parolee's home. In other area offices, however, mainly because of the workload,

offenders requiring close supervision might be seen only once a month, perhaps for as little as 15 minutes in the parole office.

**1.102** In 1998, the Service approved a revised set of standards to specify how offenders should be supervised in the community. Several offices have developed related supervisory practices over and above these minimum standards, to deal with offenders who are particularly difficult to manage in the community. In one office, a team of two parole officers is assigned full-time to see each offender twice a week. In another office, difficult offenders are assigned only to the more experienced parole officers. In some offices there is a specialized unit for sex offenders. It has been a long-standing practice to manage these offenders using different approaches in different locations without any evaluation of their effectiveness.

**1.103** **Correctional Service Canada should evaluate existing approaches to managing offenders who require a high level of supervision in the community in order to identify and implement the most cost-effective approaches under different circumstances.**

*Correctional Service's response: The workload formula will provide management with the information required to ensure more consistency in the types of supervision across CSC. At the same time, CSC will conduct evaluations of the results of such supervision practices regarding safe reintegration in order to determine their relative cost effectiveness and to make improvements.*

## Managing Reintegration Activities to Achieve Desired Results

**1.104** Perhaps the greatest challenge any public organization faces is to manage its operations and programs in a way that ensures desired results. Our 1997 Report, (Chapter 11 - Moving toward Managing

for Results) outlined a framework for managing for results. We indicated that managing for results requires a supportive organizational environment (leadership, incentives, a capacity to learn and share experiences), agreement on expected results (outcome objectives, performance indicators and expectations) and the ability to measure and report results. We noted that making the change from managing inputs to managing for results takes time, usually four to five years.

**1.105** In 1996 (Chapter 30) we observed that there were persistent weaknesses in the management of reintegration activities across the Service. We concluded that there was a need for commonly accepted work standards across all regions, quality assurance procedures and performance information on results. We noted that the Service was having difficulty implementing basic changes, applying offender reintegration activities consistently across all regions and learning from its successes and failures.

### The continuity of offender risk assessment is improving

**1.106** To reintegrate offenders safely, the Service needs to consistently apply scientifically dependable risk assessment tools at each stage in the process — intake assessment, institutional case management, reports to the National Parole Board and supervision in the community. In 1994 we noted that there was no common set of practices and processes to identify and track changes in an offender's risk and needs. At that time, the Service had already begun to address this concern.

**1.107** One of the key tools in the risk assessment process is the Custody Rating Scale, used to determine the appropriate institutional security level in which to place the offender. In some instances, the parole officer will use professional judgment to override the score indicated by the scale, and place the offender in a different security level.

**1.108** Our 1994 audit found that the Custody Rating Scale was quantitative and objective; however, not all regions used it. We recommended that the Service monitor the rate of overrides and the appropriateness of decisions on security classification. By 1997, the Service had validated the Custody Rating Scale and made its use mandatory.

**1.109** In response to the Public Accounts Committee's concern about the continuing high rate of overrides, Correctional Service adjusted the Custody Rating Scale in June 1998 so that 34 percent of offenders would be placed in minimum-security institutions (previously 15 percent). This reduced the national override rate from 25 percent to 17 percent within a month. We could find no evidence that this change had a significant impact on the number of escapes by offenders between June and December 1998.

**1.110** Once the offender is placed in an institution, a security reclassification procedure is used periodically to determine whether his security level should be changed. The Commissioner assured the Public Accounts Committee that by the end of 1998 the Service would implement a new, more objective reclassification instrument. Since the beginning of 1996, the Service has devoted a considerable amount of work to developing a new, more quantitative instrument for reviewing security classifications. We can confirm that it has begun implementing the new reclassification instrument as promised.

**1.111** We also examined all risk assessment tools used by parole officers from the perspective of their scientific integrity, continuity and application as designed. We found that Correctional Service has adequately tested the scientific basis for the risk assessment instruments, especially the validity of their measurement of offender risk to reoffend. However, testing of their

reliability (that is, demonstrating that different parole officers will use the tool in a consistent and predictable way) is not as thorough as would be expected. Although some typical tests of reliability are available for these instruments, few or none have been conducted. It would be good practice for the Service to test the dependability of these tools.

#### **Quality controls are not applied consistently**

**1.112** In 1996 we reported that the mechanisms for quality control of release recommendations were weak and the Service had no standard approach to quality control of reports that the National Parole Board used as a basis for making release decisions.

**1.113** In making these decisions, the National Parole Board places a great deal of emphasis on the quality of the parole officers' analysis in reintegration reports submitted by the Correctional Service. The Service recognizes that the quality of its reports is a key factor in release decisions. The parole officer's Case Management Manual states that the analysis is the most important stage in writing those reports. The Reintegration Task Force established by the Service to respond to our audits indicated similar concerns, and stated that the point at which the National Parole Board decides on an offender's release is the point at which the report quality is most critical.

**1.114** The Case Management Manual outlines responsibilities for quality control of reports produced throughout the reintegration process. Reports going to the National Parole Board for release hearings are prepared by parole officers, who are responsible for ensuring that they are complete, properly formatted, on time and of appropriate quality. The Reintegration Task Force stated that institutional parole officers were the first point in the quality assurance process.

**1.115** In this audit, we found in reviewing reports to the Board on

**As promised the Service has begun implementing a new reclassification instrument.**

### The quality of reports to the National Parole Board still requires improvement.

offenders that quality controls were not applied consistently. Unit Managers (supervisor responsible for a team of correctional and parole officers) sign these reports and, in some institutions, the Co-ordinator of Case Management shares responsibility for their quality. However, the Reintegration Task Force found that Unit Managers currently cannot fulfil their role in assuring the quality of reports, because their background in case management is insufficient or they are not given enough direction, training or support. Their daily duties of managing the offender population generally take precedence. We observed some use of “lead hand” senior case managers or specific quality control personnel, to help improve case management in general and report preparation in particular. The Reintegration Managers in some institutions have also helped with quality control.

#### Offender report quality remains a concern

**1.116** In 1997 the Service conducted a National Review of Case Management, which assessed the quality of documents used by the National Parole Board in deciding on inmate releases. As detailed in Exhibit 1.12, the review found that of

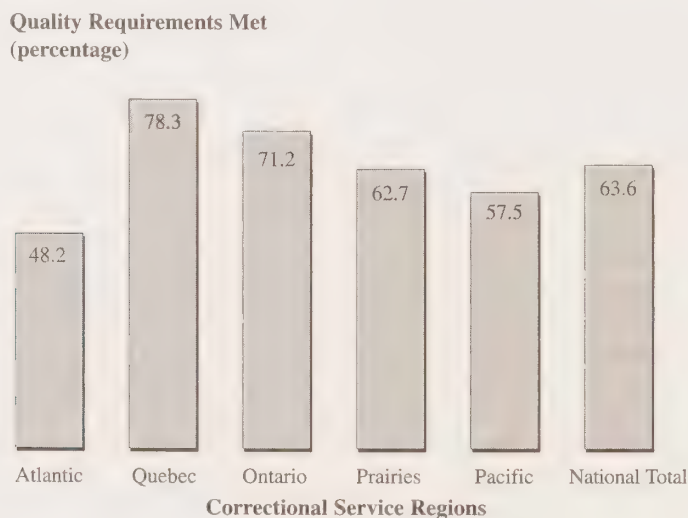
over 3,000 documents sampled across all regions, 48 percent to 78 percent complied with quality requirements. It concluded, “Supervision, direction and quality control appear to be absent or poorly delivered. ...compliance and quality levels were generally below expectation.” One regional follow-up review that we examined, conducted in June 1998, indicated that the quality of case management was “effectively stagnant at 1997 levels and requires immediate management action to improve performance”.

**1.117** We conducted our own test of report quality. We selected a random sample of all offender reports sent to the National Parole Board in 1998 for release decisions. The test was designed to determine the extent to which Correctional Service reports help Board members make informed release decisions. We examined the clarity, completeness and quality of analysis supporting recommendations on offender release. We also considered whether the quality of each offender report corresponded with the level of risk involved in the case.

**1.118** Our test of these reports examined whether they would enable the Board member to make a decision based

Exhibit 1.12

#### Quality of Reports to National Parole Board



Source: Final Report, National Review of Case Management (1997)  
– Correctional Service Canada

solely on the information in them (good reports); whether they had some gaps in information or analysis that would require additional review of the offender's file (adequate reports); or whether they were of little value and the decision would require a full file review (poor reports). Our findings concurred with those of Correctional Service's reviews. Overall, we found that 43 percent of the reports submitted to the Board for release decisions were "good", 46 percent were "adequate"; and 11 percent were "poor". Of reports on high-risk offenders, 16 percent were of poor quality.

**1.119** Two major recurring concerns emerged across these reviews. The first was the number of reports sent to the Parole Board members that were incomplete and unclear. The second was the need for parole officers to improve their reporting of risk assessment and their analysis of the extent to which the offender has changed and is likely to be manageable in the community.

**1.120** **Correctional Service Canada should address known deficiencies in the quality of its reports to the National Parole Board and ensure that quality control is exercised in accordance with approved policy.**

*Correctional Service's response: The Service will continue to place a high priority on ensuring responsibility and accountability for quality control is exercised by staff, supervisors and managers at all levels of the Service.*

**The nature and extent of performance information has improved**

**1.121** In 1996 we indicated that there was a lack of good performance information on case management activities. We said that Correctional Service managers at all levels (particularly at the institutional level) needed performance measurement systems to determine to what extent their activities were contributing to reintegration. We

encountered difficulty at that time finding any data on the results of the Service's reintegration activities.

**1.122** The Service now has an increased capability to acquire, organize and analyze performance data in a more timely manner. Performance information that we gathered manually in 1996, on such things as the timeliness of acquiring documents and average time to achieve case management milestones, is now available from the Performance Assurance Branch at headquarters and from regional data systems.

**1.123** The Performance Assurance Branch prepares a Corporate Results Book for discussion at each executive committee meeting. The book outlines both national and regional performance in several aspects of the Correctional Service mission. It provides performance data and summary analysis on several key aspects of offender reintegration (offender admissions, releases, incidents, escapes, waivers and postponements). In addition, upon request the Research Branch undertakes statistical and trend analysis of data on the safe reintegration of offenders, covering such areas as offender population trends, offender reintegration without reoffence and offender potential for reintegration.

**1.124** The Service is also developing a Reintegration Tool Kit for local managers and parole officers to manage, plan and monitor the performance of reintegration activities on an ongoing basis. The first tool is Action Indicators, an instrument that monitors in each institution the ongoing status of offender reintegration documents received, offender assessments, steps completed in the case management process for each offender and status of offender reports against time standards. These tools are being designed by the supervisors and staff who will ultimately use them. Implementation is planned for early 1999.

The Service has now enhanced its capability to measure its performance.

**1.125** The Service also uses national and regional reviews as another means of measuring local and regional compliance with approved policy and procedures. In February and March 1998, Correctional Service completed national reviews of the Intake Assessment units, Institutional Case Management and Community Supervision. In addition to assessing compliance with regulations, these reviews examined areas such as the quality and timeliness of reports and the quality of community supervision. These reviews and subsequent regional reviews have identified some performance deficiencies and requirements that the Operation Bypass initiative is addressing.

**1.126** The Service has now enhanced its capability to measure its performance at the national, regional and local levels. It recognizes that further refinement and acceptance of performance measures will be needed to improve managing for results.

#### Lessons learned are being shared

**1.127** In 1994 and again in 1996 we observed that Correctional Service was not learning from its successes and sharing its best practices to make needed changes. Recently, however, the Service has made a concerted effort to share best practices among and within regions.

**1.128** Management and staff involved in offender reintegration activities, from intake to community supervision, have used such mechanisms as conferences, working groups and publications to share information on what is working and what is not. It is now an established practice that one region presents its current best practices at one of the two annual meetings of senior management. Meetings and workshops involving regional reintegration staff and National Parole Board officials are used to find ways to improve the quality of reports sent to the Board.

**1.129** Correctional Service Canada has increasingly promoted and participated in the learning and sharing of best practices with other countries. In recent years, it has participated increasingly in international forums, international visits, training and assistance in correctional reform and technical assistance projects in developing countries. The Service has received several awards for its offender research, offender risk assessment tools and rehabilitation programs.

## Conclusion

**1.130** The findings of our previous audits led us to conclude at the time that there were systemic weaknesses in the Service's management of its reintegration activities. We noted weaknesses throughout all aspects of the reintegration process.

**1.131** Since then, Correctional Service has made a concerted effort to respond to our observations through a wide range of initiatives. It has strengthened its national headquarters organization, which provides overall direction and co-ordination for changes in the reintegration process. It has begun to make substantive improvements in its intake assessment process, and has increased its efforts to prepare offenders for parole hearings in a timely manner. Program accreditation has had a positive impact on offender intervention programs. The Service now has the means to allocate workload in the community more effectively.

**1.132** Overall progress notwithstanding, improvement is still needed in some areas:

- more timely acquisition of official documents for offender assessment;
- more timely casework preparation to meet the offender's first parole date;
- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and

Efforts to implement a number of significant change initiatives have just begun and need to be sustained.

- improved adherence to national standards for frequency of contact with offenders in the community.

**1.133** Efforts to implement a number of significant change initiatives have just begun and need to be sustained. As highlighted in the recommendations throughout this report, action is required to improve results in these critical areas.

**1.134** At the end of our audit work in 1996, we expressed concern about inconsistent practices and results across the five regions of the Service. We believe that the Service is now moving in the right direction. Its biggest challenge is to implement new initiatives effectively across all regions. In addressing this challenge, it must continue to move from managing inputs to managing for results.



## About the Audit

### Objectives

The objectives of this audit were:

- to determine the extent to which Correctional Service Canada (CSC) has acted on our earlier recommendations; and
- to assess the extent to which the Service's changes in the management of offender reintegration have contributed to sustainable improvements.

### Scope

The focus of this audit was to re-audit key observations and recommendations made in our Report Chapter 30 (1996) Reintegration of Offenders; Chapter 10 (1996) Rehabilitation Programs for Offenders and Chapter 18 (1994) Supervision of Released Offenders.

We focussed our examination on the major aspects of offenders' reintegration, which included offender assessment and case management, offender programs, community supervision and the management of the reintegration activities. This included continuity of offender risk assessment, quality controls, performance information and sharing lessons learned.

In response to a request by the Public Accounts Committee, the audit also included follow-up audit work on the Custody Rating Scale used to determine the initial security level of inmates' institutional placement and the Security Reclassification instrument, which determines whether the security level of the inmate should be changed.

This audit did not include female offenders or issues specific to Aboriginal offenders.

### Criteria

We expected that:

- CSC would have programs and policies in place that result in a sustainable management framework for offender reintegration, as demonstrated by:
  - leadership and management attention to address reintegration matters;
  - performance measurement systems that support operational decisions at all levels (national, regional, institutional);
  - the ability to assess, share and apply lessons learned to improve existing and future practices; and
  - a level of staff training and development to meet internal professional requirements.
- CSC would perform effectively the critical functions that enable an offender (while incarcerated) to be ready for safe reintegration into the community at the earliest possible date. Performance of critical functions require:
  - proved and consistent risk assessment practices;
  - accurate and timely offender information from external agencies;

- accurate and timely assessment of offender criminogenic factors, community support and program requirements;
- quality programs delivered on time; and
- complete, timely and accurate reports to the National Parole Board for release decisions (Risk Assessment Profile).
- CSC would supervise offenders in the community to facilitate safe and sustainable reintegration into society. Essential components of offender supervision in the community are:
  - continuity with institutional risk assessment practices;
  - availability of beds and the provision of required and relevant programming;
  - an appropriate and consistent level of parole officer contact with, supervision of and assistance to offenders; and
  - consistent methods used to minimize release revocations.

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## Appendix

## Offender Population, Admission and Release Trends (1993–94 to 1997–98)

## Offender Population

| Offender Location        | 1993-94       | 1994-95       | 1995-96       | 1996-97       | 1997-98       |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Institution <sup>1</sup> | 13,560<br>59% | 14,274<br>62% | 14,195<br>63% | 14,163<br>63% | 13,449<br>61% |
| Community <sup>2</sup>   | 9,405<br>41%  | 8,688<br>38%  | 8,415<br>37%  | 8,246<br>37%  | 8,744<br>39%  |
| <b>Total</b>             | <b>22,965</b> | <b>22,962</b> | <b>22,610</b> | <b>22,409</b> | <b>22,193</b> |

<sup>1</sup> Institutional figures do not include escaped offenders and provincial offenders housed in federal institutions. (226 as of March 1998).

<sup>2</sup> Community figures do not include offenders deported upon release, and provincial offenders under federal supervision (787 at March 1998). Included are offenders unlawfully at large (707 at March 1998) and offenders on parole who have been temporarily detained (667 at March 1998).

## Offender Admissions

| Type of Admission           | 1993-94      | 1994-95      | 1995-96      | 1996-97      | 1997-98      |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Warrant of Committal        | 5,117        | 4,783        | 4,401        | 4,569        | 4,501        |
| Revocation* without Offence | 2,174        | 2,434        | 2,148        | 2,346        | 2,389        |
| Revocation* with Offence    | 1,563        | 1,289        | 1,151        | 1,009        | 980          |
| <b>Total</b>                | <b>8,854</b> | <b>8,506</b> | <b>7,700</b> | <b>7,924</b> | <b>7,870</b> |

\* Conditional release suspended and offender returned to federal prison.

## Offender Releases

| Type of Release          | 1993-94        | 1994-95        | 1995-96        | 1996-97        | 1997-98        |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Day Parole               | 3,288<br>(40%) | 2,592<br>(33%) | 2,105<br>(27%) | 1,761<br>(22%) | 2,663<br>(31%) |
| Full Parole <sup>1</sup> | 1,282<br>(16%) | 912<br>(12%)   | 924<br>(12%)   | 839<br>(11%)   | 571<br>(7%)    |
| Statutory Release        | 3,409<br>(41%) | 3,887<br>(50%) | 4,458<br>(56%) | 4,789<br>(61%) | 4,877<br>(57%) |
| Warrant Expiry           | 281<br>(3%)    | 369<br>(5%)    | 419<br>(5%)    | 438<br>(6%)    | 424<br>(5%)    |
| <b>Total</b>             | <b>8,260</b>   | <b>7,760</b>   | <b>7,906</b>   | <b>7,827</b>   | <b>8,535</b>   |

<sup>1</sup> These figures do not include offenders who change from day parole to full parole. These are shown below.

| 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 |
|---------|---------|---------|---------|---------|
| 1,262   | 1,147   | 908     | 792     | 1,315   |

Source: Correctional Service Canada

Source: National Parole Board

# Report of the Auditor General of Canada to the House of Commons – 1999

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**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 2**  
Revenue Canada –  
Underground Economy Initiative

**April 1999**



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**April 1999**

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## Chapter 2

**Revenue Canada**

Underground Economy Initiative

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

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# Revenue Canada

## Underground Economy Initiative

### Main Points

**2.1** Revenue Canada has reported that the tax impact (taxes resulting from enforcement actions) of its activities to address the underground economy was \$2.5 billion over five years; however, this includes the results of both regular ongoing enforcement programs and the Underground Economy Initiative. The actual tax impact attributable to the detection of unreported income by the 1,000 staff allocated to Initiative audit activities is much less than the \$500 million reported.

**2.2** It is difficult to assess the overall success of the Initiative in combatting the underground economy because the Department does not measure and report on the full range of Initiative activities and how they have changed taxpayer behaviour.

**2.3** Revenue Canada needs to assess the role that social marketing might play in making the public aware of the societal costs of unpaid taxes and in soliciting its support to combat the underground economy. Polls indicate that an alarming number of Canadians would be willing to participate in the underground economy. The Department also needs to strengthen the activities that promote voluntary compliance by businesses.

**2.4** The underground economy is a difficult and complex problem to solve and the size of the tax loss is significant. The problem requires continuous attention and sustained efforts from Revenue Canada and all Canadians.

### Background and other observations

**2.5** The underground economy results in tax evasion and represents an estimated annual loss of federal and provincial tax revenues of \$12 billion. Tax evasion is not a victimless crime. It puts honest businesses at a competitive disadvantage and, in some cases, out of business. It also causes honest taxpayers to bear the tax load of those who cheat. If left unchecked, underground economy activity could lead to a loss of faith in the fairness of Canada's tax system.

**2.6** In 1993, Revenue Canada announced a new initiative to combat the underground economy by allocating 200 staff to its non-filers and non-registrants program and 1,000 staff to the audit of small businesses, where most of the underground economy activity exists. Thirty-five percent of the Department's audit staff for small and medium-sized businesses are now involved in the Underground Economy Initiative audit activities.

**2.7** The Initiative as planned was, in our view, a balanced approach to combatting tax evasion in the underground economy. It included activities to promote voluntary compliance in small businesses such as community visits and consultations with industry associations. As well, it involved other federal departments, provincial and municipal governments and private sector organizations in sharing information to better deal with the underground economy.

**2.8** The Department can improve its targeting of audits for the detection and reassessment of unreported income. As well, legislative opportunities exist to strengthen existing incentives to deter participation in the underground economy.

**Revenue Canada has agreed to take action to address our recommendations.**



## Introduction

### The underground economy

**2.9 Definition.** The “underground economy”, a term familiar to most Canadians, is commonly defined as activities that result in income that has been earned but not reported for tax purposes. The definition may include illegal activities, such as smuggling tobacco and liquor, drug trafficking and money laundering.

**2.10** In this chapter, we refer to the underground economy as legal transactions in goods and services that are “hidden”, resulting in the evasion of taxes. Examples of sectors where the underground economy is a concern include home repairs and renovations and auto repairs. Transactions in the underground economy often take place with cash because one party, or sometimes both parties, wants to make sure that no visible record exists. Participants in the underground economy cross all economic

sectors; they range from those who operate businesses on a full-time basis to “moonlighters”, and include those who do business with them. Exhibit 2.1 shows an example of a complex underground economy scheme.

**2.11** Factors often cited as contributing to the underground economy include higher tax rates, the growing complexity of the tax law, changes in public attitudes toward taxation and government in general, a low perceived risk of getting caught, opportunity (that is, no withholding of taxes at source), and a perception of minimal consequences. Tax commentators have also said that the “visibility” of the GST and the associated disillusionment that accompanied its introduction has fuelled the growth of the underground economy.

**2.12 Effects.** The underground economy results in tax evasion, and tax evasion is not a victimless crime. It puts honest businesses at a competitive disadvantage and, in some cases, out of business. Exhibit 2.2 illustrates how the

**The underground economy results in tax evasion and represents an estimated annual loss of federal and provincial tax revenues of \$12 billion.**

A contractor had not filed his tax return. Revenue Canada issued a filing requirement and obtained a tax return and related financial statements.

A review of the tax return and financial statements showed that the contractor owned two corporations. The gross income of these two corporations was \$3.5 million for three years. As the financial statements of these two corporations showed no salary expenses, Revenue Canada suspected that the contractor paid his employees in cash or “under the table”. The contractor’s return was sent to audit.

Auditors found that the corporations were in reality selling invoices to other contractors (clients). On behalf of these clients and on their request, the corporations would send invoices to the clients’ customers for work done. Customers would pay the corporations. The corporations would keep 5 to 10 percent of the payments and would remit the difference to their clients (those who did the work).

As the corporations did not keep proper books and records, auditors could not identify the clients or, indirectly, the employees of these clients. Auditors also found that the contractor went bankrupt in August 1997, and also had in 1991.

The \$3.5 million of gross income reported by the corporations was in reality the salaries of the clients’ employees. No income tax had been withheld on these salaries by the corporations or the clients and remitted to Revenue Canada. Using an average tax rate of 20 percent, Revenue Canada estimated that this represented about \$700,000 in lost federal taxes alone. The contractor never paid taxes on his commissions (from \$175,000 to \$350,000). The case illustrates how certain contractors used an old scheme – selling invoices – to conceal income.

#### Exhibit 2.1

##### A Complex Underground Economy Scheme – Example

*Revenue Canada identified the following scheme in reviewing a taxpayer’s payments to various contractors.*

New trends such as the recent growth in self-employment and the introduction of electronic commerce as a means of conducting business will create more opportunities to hide income from tax authorities.

underground economy hurts competition. Honest taxpayers lose business because customers may decide not to accept their bids or prices, which may be higher than those of vendors who fail to collect and remit the sales taxes, report their income and pay their fair share of income taxes.

**2.13** The underground economy causes honest taxpayers to bear the tax load of those who cheat and puts at risk essential government programs such as health and social services. If left unchecked, underground economy activity could lead to a loss of faith in the fairness of Canada's tax system.

#### At 4.5 percent of GDP, the underground economy warrants continuing government action

**2.14** **Size.** Estimates of the size of the Canadian underground economy contained in many studies over the last 17 years have ranged from 3 percent to over 20 percent of gross domestic product (GDP). Our review of these studies indicates that differences in their objectives, definitions of the underground economy and measurement methodologies

explain the wide variation in these estimates. Taking into account the differences, our review concluded that a reasonable range of estimates of the underground economy — defined in terms of the value of transactions in goods and services that are hidden and result in the evasion of taxes — was between 4.2 and 4.5 percent of GDP in 1993. This range is in line with Statistics Canada's estimate of 4.2 percent of GDP for that year. At 4.5 percent of GDP in 1997, the size of the underground economy would have amounted to \$38 billion. This figure translates into a loss of income and commodity tax revenues of \$12 billion for that year alone — \$7 billion at the federal level and \$5 billion at the provincial level.

**2.15** **Trends.** New trends such as the recent growth in self-employment and the introduction of electronic commerce as a means of conducting business will create more opportunities to hide income from tax authorities.

**2.16** The number of self-employed people grew by 38 percent from 1989 to 1997. In 1997 they represented 18 percent of the employed population, compared with 14 percent in 1989. Revenue Canada

#### Exhibit 2.2

##### How the Underground Economy Hurts Competition

*This exhibit illustrates how difficult it is for honest businesses to outbid businesses operating underground.*

By paying his workers "under the table", an employer can reduce the cost for a worker employed legitimately by 40 to 50 percent. In general, this "cost reduction" arises from the non-payment of payroll taxes. The worker's take-home pay may be increased by 30 to 40 percent when income taxes are not withheld at source and other payroll deductions are not made by the employer.

|                                   | Employer's costs | Employee's take-home pay |
|-----------------------------------|------------------|--------------------------|
| Regulated wage including benefits | \$ 1400          | \$ 600                   |
| Underground wage                  | \$ 800           | \$ 800                   |
| <b>Reduction or increase</b>      | <b>\$ 600</b>    | <b>\$ 200</b>            |

This above-noted example illustrates the situation of a dry-wall worker working a 40-hour week. In the regulated employment situation, the employee is paid in accordance with agreed union rates for a dry-wall worker (\$22.77 an hour in 1997) and employment benefits legislation. In the underground employment situation, the same dry-wall worker is paid at a rate of \$20 an hour. This is a rate that Revenue Canada auditors have observed in the underground economy. The employee's take-home pay is net of income tax and other payroll deductions.

has taken steps to make the self-employed more aware of their tax obligations. These include increasing enforcement actions and, in conjunction with the Department of Finance, conducting reviews to better understand the work patterns of the self-employed, their income levels, and the opportunities they have to avoid reporting income.

**2.17** Electronic commerce can hide the reporting of transactions for both income and commodity tax purposes. It raises practical difficulties of ensuring compliance, given that evidence about the identity and location of parties to a transaction may be difficult to obtain and assess. Existing record keeping and maintenance standards may not be sufficient to reflect electronic transactions. Revenue Canada may also have difficulty accessing encrypted evidence if it does not have a decryption key. Electronic commerce makes it very difficult to determine the source and nature of income.

**2.18** In its response to the 1998 report of the Minister's Advisory Committee on Electronic Commerce, "Electronic Commerce and Canada's Tax Administration", Revenue Canada indicated that many of the issues raised by the Advisory Committee need further work. The Department intends to consult with the private sector in the development of new or revised tax compliance and administrative policies and procedures related to electronic commerce.

### Focus of the audit

**2.19** We examined the implementation of Revenue Canada's Underground Economy Initiative to combat tax evasion in the underground economy. We also reviewed how the Department accounted for the Initiative's results. Further details are found at the end of the chapter in the section **About the Audit**.

## Observations and Recommendations

### Revenue Canada's Strategy to Combat the Underground Economy

#### The Underground Economy Initiative was announced in 1993

**2.20** In the early 1990s, there was a general perception that the underground economy was a growing problem and that the government had to do something more comprehensive to curtail it. In November 1993, Revenue Canada announced a strategy to deal with the underground economy. The strategy focussed on unreported legal transactions in goods and services on which taxes had not been paid. It did not deal with unreported income from illegal transactions such as bribery, fraud and sales of drugs, which are addressed through other Revenue Canada programs.

**2.21** Revenue Canada's underground economy strategy consists of seven initiatives, which are collectively referred to as the Underground Economy Initiative. Exhibit 2.3 illustrates the range of the activities planned as part of the Initiative. The objective of the Initiative is "to ensure integrity and fairness of the voluntary tax system by addressing underground economy activity and tax evasion to ensure a level playing field." The Department expects that as a result of the Initiative, there will be increased voluntary compliance, changes in Canadians' attitudes toward tax evasion, and increased compliance in targeted areas.

**2.22** **The announced Initiative was multi-dimensional.** The Underground Economy Initiative as planned was, in our view, a balanced approach to combatting tax evasion in the underground economy. It was intended to increase the chance that

The Underground Economy Initiative as planned was, in our view, a balanced approach to combatting tax evasion in the underground economy.

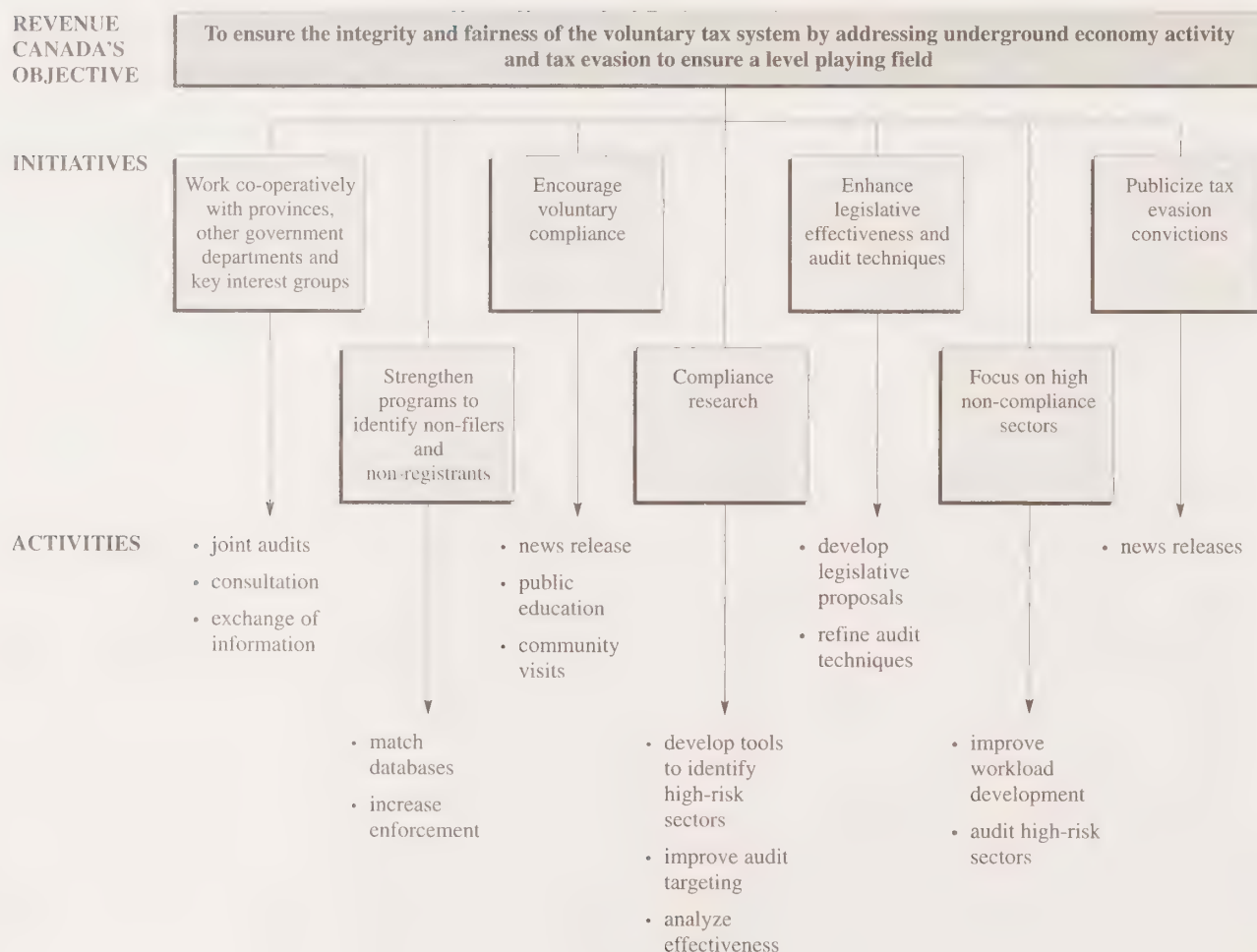
unreported income would be detected, to enforce the payment of taxes from unreported income, to develop new activities to support taxpayers in meeting their tax responsibilities and to deter taxpayers from participating in the underground economy. Activities included encouraging voluntary compliance through community visits to business establishments, educating the public, partnerships with other governments and business organizations, enforcing

compliance by auditing in areas of high non-compliance and supporting compliance efforts with additional research.

**2.23** Research undertaken by other tax administrations also points to the conclusion that a multi-dimensional approach is needed to influence the compliance behaviour of corporations and individual taxpayers, and to effectively combat the underground economy.

Exhibit 2.3

The Underground Economy Initiative



Source: Adapted from Evaluation Study – Revenue Canada's Underground Economy Strategy

## Implementation of the Underground Economy Initiative

**2.24 Revenue Canada has strengthened its resources to deal with the underground economy in the last five years.** The Department allocated 1,200 staff to implement the Underground Economy Initiative. Of these, 1,000 auditors are currently allocated to four targeted business sectors. The other 200 staff were allocated to the non-filers and non-registrants program.

**2.25** In addition to the Initiative's resources, a significant number of additional staff have been assigned to small business audits over the past three years. We found that these staff have been trained to audit small business taxpayers who have inadequate tax records.

**2.26** Revenue Canada has signed memoranda of understanding with all provincial governments to increase co-operation to combat the underground economy more effectively. It has also signed memoranda of understanding with Human Resources Development Canada to promote the exchange of information on Employment Insurance payments and income reported for tax purposes.

**2.27** The Department has consulted with private sector organizations and associations and has promoted voluntary compliance through visits to businesses. It has also been active in pursuing certain legislative changes such as the introduction of a new mandatory requirement for reporting income in the construction industry, and a new reporting system for all federal government services contracts.

**2.28 All Initiative resources were allocated to the enforcement area.** The 1,200 staff are essentially involved in enforcement activities such as auditing and detecting non-filers. The Department did not devote staff with specialized skills to implementing the voluntary compliance

activities of the Initiative. Enforcement staff have carried out some of these activities, while other activities have not been implemented.

**2.29 Proposed communication activities have not been carried out.** The Underground Economy Initiative included activities aimed at making the public aware of the social inequities and costs arising from unpaid taxes and at generating support for Revenue Canada's enforcement actions. Although a few specifically targeted communication projects have been carried out to date, Revenue Canada has not implemented general public awareness activities. The Department has not even conducted the necessary research to determine whether social marketing activities such as broad-based advertising could be a valuable tool to combat the underground economy. The Department has advised us that it has begun conducting such research.

**2.30** Documents in Revenue Canada's possession indicate that surveys carried out by various organizations from 1994 to 1997 show that an alarming number of Canadians would be willing to participate in the underground economy. In December 1994, a CTV Television Network poll indicated that 58 percent of Canadians would accept an offer to evade taxes when buying goods or services. In March 1997, a Gallup poll found that 73 percent of respondents said they would do so. While not necessarily indicative of a trend, these survey results suggest that Revenue Canada needs to involve the Canadian public more in combatting the underground economy.

**2.31 Revenue Canada should complete research to determine how to implement its social marketing activities to make taxpayers aware of the costs of the underground economy to society and legitimate business.**

Surveys carried out by various organizations from 1994 to 1997 show that an alarming number of Canadians would be willing to participate in the underground economy.

In some communities, 30 percent of the businesses contacted had either not filed a return or not registered for the GST.

**Department's response:** Revenue Canada agrees with the recommendation and will complete research to determine how to implement its social marketing activities. As reflected in the chapter, the Department is already conducting research to gain insights into how best to communicate about the underground economy. The Department's aim is to:

- determine how Canadians respond to concerns regarding the underground economy and its impacts on social programs;
- determine whether a broad-based advertising campaign would be an effective way in which to raise general public awareness of the underground economy and of what the Department has been doing to deal with it, and, if so, what messages and media would have the most impact; and
- improve and expand its existing communications efforts targeted at specific industry sectors and related consumers.

Social marketing will be a long-term initiative. In addition to extensive research, social marketing entails obtaining the support and active involvement of a number of partners. These partners include other federal government departments and the provinces. Also, we will continue our co-operative communications activities with private sector associations.

The Department has met with a number of stakeholders to explore interests and commitment. We are also currently conducting public opinion research in the home renovation sector, to be completed by 31 March 1999, with the view of developing a social marketing plan and other communication-related strategies for that sector, as well as for the general public.

**2.32 Activities undertaken to promote voluntary compliance by businesses have declined.** The

Underground Economy Initiative included activities to increase voluntary compliance by business taxpayers. Two of these activities were visits to business establishments in selected communities and increased consultations with business associations.

**2.33** Revenue Canada has undertaken visits to business establishments to remind them of their tax responsibilities and to note taxpayer names and business numbers for future follow-up action. During these visits, staff provide taxpayers with a package of information to help them voluntarily comply. Revenue Canada's quarterly reports on the Initiative's activities show that the number of visits to businesses has declined over the past two years. In 1995–96 and 1996–97, over 120 community visits — or an average of 60 per year — were made. In 1997–98, Underground Economy Initiative auditors made only 37 community visits. Consultations were initiated with over 400 business associations, but quarterly reports indicate that few follow-up meetings have been held over the past year.

**2.34** The recent decline of efforts in community visits and consultations is worrisome, as it diminishes the role that the activity referred to as “encourage voluntary compliance” can play in combatting the underground economy.

**2.35** It is also worrisome that the Department's response to the information obtained during the community visits has often consisted of enforcement actions. These community visits have indicated high rates of non-compliance. In some communities, for example, 30 percent of the businesses contacted had either not filed a return or not registered for the GST. The Department's response to this situation was to refer the files to the non-filers program or to the audit function. Other follow-up activities to assist the taxpayers in understanding and

meeting their tax reporting responsibilities could be used.

**2.36** We noted, for example, that to help reduce non-compliance in the transition to the Harmonized Sales Tax, a Tax Services Office had undertaken an innovative practice of extending assistance to taxpayers. Using its Client Services staff, it started an outreach program that involves meeting with taxpayers individually to better explain their tax obligations and to promote voluntary compliance with the new Harmonized Sales Tax. Although not an Underground Economy Initiative activity, the Department considers this program successful in attacking the underground economy.

**2.37 Revenue Canada should strengthen its Underground Economy Initiative activities to promote voluntary compliance by businesses.**

*Department's response:* Revenue Canada agrees with the recommendation and has always made activities to promote voluntary compliance a key part of the Department's balanced approach to addressing the underground economy. As noted in the chapter, Revenue Canada undertakes numerous activities to promote voluntary compliance. Emphasis will be placed on increasing the number of community visits and on maintaining relationships that have been established with private sector associations. Also, the social marketing research being undertaken by the Department will provide useful information on the types of activities that are most likely to be effective in encouraging voluntary compliance.

*In particular, Revenue Canada considers its community visits to be an excellent opportunity to assist taxpayers in understanding and meeting their tax reporting responsibilities. In addition to leaving taxpayers with a package of information to help them comply voluntarily, staff offer to answer questions*

*taxpayers might have and to provide assistance on-the-spot or shortly afterward. Appropriate enforcement action is taken only if a taxpayer has still not complied after information and assistance have been provided.*

**2.38 External sources of information can improve detection of unreported income.** The underground economy is generally characterized by a large number of small transactions that collectively amount to several billion dollars of unreported income. In this context, the efficient detection and assessment of relatively small amounts of unreported income pose enormous challenges to Revenue Canada.

**2.39** The use of external sources of information complements Revenue Canada's internal information and can improve the identification of non-filers and the selection of audit files. These sources yield additional information about both the income paid to taxpayers and the wealth of taxpayers identified as possibly not having fulfilled their tax responsibilities. Such information contributes to detecting the worst cases of unreported income and providing more certainty before an enforcement action is undertaken.

**2.40** Over the last five years, the Department has obtained more than 70 databases from other federal departments, provincial and municipal governments and private sector sources and matched them against its own databases. For example, one Tax Services Office (TSO) obtained a private sector database of payments made to contractors, and preliminary results indicate that substantial unreported income may exist in a segment of the resources sector. Another TSO received a database of payments made to city construction contractors. When matched against the contractors' filed returns, a sample of payments indicated that 40 percent had not reported these payments. At the time

Over the last five years, Revenue Canada has obtained more than 70 databases from other federal departments, provincial and municipal governments and private sector sources and matched them against its own databases.

of our audit, the Department was finalizing its enforcement response.

**2.41** We found that access to provincial information varied from region to region and among TSOs. For example, only one provincial government provided a database on workers compensation; two provided information on property assessments and one on land registries. Most provided information on motor vehicle registration. Our examination also showed that one particular Tax Services Office had requested 22 provincial databases, but after 18 months the majority still had not been received.

**2.42** The Department has signed memoranda of understanding with all provinces to increase co-operation in dealing with the underground economy. Most provinces have identified a representative to work with Revenue Canada to facilitate the data exchange. The provinces benefit from Revenue Canada's activities to counter the underground economy because under current tax collection agreements, they receive the provincial share of any tax reassessment flowing from Revenue Canada's audits.

**2.43** We recognize that governments are obliged to protect the privacy of information provided to them, and a process is needed to allow for the proper exchange of information between federal departments and other levels of government. However, it is also important for Revenue Canada to have efficient access to data that can be used to detect unreported income, especially income from government payments.

**2.44** **Revenue Canada should collaborate with other levels of government and other partners to access the data that can be used to detect unreported income.**

*Department's response: Revenue Canada agrees with the recommendation and will continue to collaborate with the other*

*levels of government and other partners to access the required data. As discussed in the chapter, Revenue Canada makes extensive use of external sources of information to complement internal information, to identify non-filers and to assist in selecting files for audit. Matching of Revenue Canada databases with external databases has been and continues to be a key tool used by the Underground Economy Initiative in identifying and auditing cases of unreported income. As paragraph 2.42 indicates, Revenue Canada has agreements with all provinces to increase co-operation in dealing with the underground economy. The agreements facilitate the exchange of information, as well as other co-operative activities. The existence of these arrangements demonstrates the importance that the Department places on the use of external databases.*

*Revenue Canada recognizes the compliance benefits that accrue from increased sources of data. As the Department continues to work in closer collaboration with its provincial colleagues, and as it moves to proposed Agency status and explores new business opportunities with them, information sources of benefit to the Department's programs will be explored.*

*At the same time, Revenue Canada is committed to ensuring that the confidentiality provisions of the legislation administered are fully respected, and that the Treasury Board Guidelines regarding data matching are observed. Furthermore, the compliance benefits of data matching must be carefully balanced with Canadians' regard for privacy. Consultation with the Office of the Privacy Commissioner is undertaken on an ongoing basis, as required.*

**2.45** **More research is needed to support Underground Economy Initiative activities.** Auditors need a good knowledge of the sectors they are auditing if they are to be effective at detecting and assessing unreported income and

combatting local underground economy activity. They need to understand, for example, the nature of the operations in those sectors. They also need to be able to assess the risks of non-compliance for a given sector and to develop an appropriate compliance approach.

**2.46** Revenue Canada committed itself to undertaking research aimed at gathering appropriate information to support the enforcement activities included in its Underground Economy Initiative. Departmental documents refer to the importance of developing sector profiles to assess the risk of unreported income in economic sectors and to understand the business operations of these sectors. Accordingly, we inquired into whether the Department had developed profiles for the four sectors that it had decided to target in carrying out its Initiative: construction and renovation; used car sales and auto repairs; hospitality; and jewelry. We found that the Department had not completed the profiles for all the sectors when it decided to focus on them. Two sector profiles are still in draft form.

**2.47** Revenue Canada should complete the development of its sector profiles in order to better audit underground economy issues.

*Department's response:* As noted in the chapter, departmental documents refer to the importance of developing sector profiles to assess the risk of unreported income in economic sectors and to understand the business operations of these sectors. Revenue Canada agrees with the recommendation to complete the development of these sector profiles and is currently in the process of doing so.

**2.48** Taxpayers with a high risk of unreported income exist in all sectors. In narrowing the focus of Underground Economy Initiative audits to four sectors (construction, jewelry, hospitality and automotive), the Department wished to concentrate its enforcement resources where it believed they would have the

largest and most visible impact. Sixty-three percent of Underground Economy Initiative audits completed in 1997–98 in these four sectors were related to the construction sector.

**2.49** Taxpayers with high risk of unreported income exist in all economic sectors. However, audits conducted by regular business auditors in these sectors may not focus as strongly as Underground Economy Initiative audits on identifying unreported income. It may be time to reconsider the distinction between small business audit and Initiative audit and expand the focus on unreported income to the highest-risk taxpayers in all sectors. The necessary training and management guidelines for team leaders need to be in place to support this broader approach to combatting tax evasion.

**2.50** Revenue Canada should reconsider its audit focus for the Underground Economy Initiative to include taxpayers in all sectors with a high risk of unreported income.

*Department's response:* Revenue Canada agrees to consider expanding its audit focus for the Underground Economy Initiative to include taxpayers in all sectors with a high risk of unreported income. Any expansion would have to take into consideration the resource implications and be balanced against the Department's ability to maintain a large and visible impact in the selected sectors.

## Results and impacts of the Underground Economy Initiative

**2.51** Five years have passed since the Underground Economy Initiative was announced. We expected the Department to measure and report clearly the tax impact and other results of the Initiative's activities. This information is important to make decisions about the future of the Initiative — whether it should be discontinued, maintained, expanded or integrated in ongoing departmental operations. The information is also important to determine what strategies are

It may be time to reconsider the distinction between small business audit and Underground Economy Initiative audit and expand the focus on unreported income to the highest-risk taxpayers in all sectors.

Revenue Canada has reported that the tax impact of its activities to address the underground economy was \$2.5 billion over five years; however, this includes the results of both regular ongoing enforcement programs and the Underground Economy Initiative.

the most effective in combatting the underground economy.

**2.52 It is difficult to assess the success of the Underground Economy Initiative enforcement activities in detecting unreported income.** The Department has reported that its activities to combat the underground economy resulted in a \$2.5 billion tax impact (taxes resulting from enforcement actions) for the period November 1993 to 31 March 1998. However, the \$2.5 billion includes both the results of regular ongoing enforcement programs and the results of the Initiative.

**2.53** We examined the \$2.5 billion for results attributable to the Underground Economy Initiative (see Exhibit 2.4).

**2.54** The \$2.5 billion includes an amount of \$1.6 billion that represents the total tax impact of the non-filers and non-registrants program for that period. This program is a regular enforcement program that has existed for many years. The Underground Economy Initiative only intensified the use of this program by

adding 200 staff to its 550 pre-existing staff. The Department has never reported the incremental tax impact of the 200 additional staff. During this time, the Department also reported that the number of returns obtained as a result of the non-filers and non-registrants program dropped from 509,000 in 1993–94 to 441,000 in 1997–98.

**2.55** Of the reported \$2.5 billion tax impact, about \$600 million accounts for audits that the Department has recorded as Initiative audits. Initiative income tax and GST audits account for about \$300 million each.

**2.56** Of the \$300 million GST tax impact, about \$100 million resulted from GST audits done by ministère du Revenu du Québec officials. The resources allocated to the Initiative were not used to carry out these audits.

**2.57** Of the \$300 million resulting from income tax audits, we were interested in determining how well the Underground Economy Initiative audits had detected and reassessed unreported income. Revenue Canada's systems do not record separately the amount of additional gross income that its auditors have identified and reassessed. This makes it difficult for the Department to account for the impact of the Initiative's audit activities in addressing unreported income.

**2.58** We reviewed over 90 Initiative income tax audit files from four Tax Services Offices to identify the unreported income detected by these audits. Over 40 percent of these files did not involve unreported income; rather they included reassessments due to technical matters such as incorrect capital cost allowance claims, disallowance of tax shelter losses and other losses, and income arising from shareholder loans. Although the tax impact of these types of reassessments was attributed to the Initiative, it is unrelated to underground economy activity.

#### Exhibit 2.4

##### Tax Impact of \$2.5 Billion Attributed to Activities to Combat the Underground Economy

(November 1993–31 March 1998)

|   |       |               |
|---|-------|---------------|
| Non-filers and non-registrants program (regular and Initiative) |       | \$ 1.6        |
| Underground Economy Initiative audits                           |       |               |
| Revenue Canada  |       |               |
| Income Tax  | \$ .3 |               |
| GST   | .2    |               |
|   | .5    |               |
| Ministère du Revenu du Québec                                   |       |               |
| GST   | .1    | .6            |
| Non-Initiative audits of self-employed taxpayers                |       | .2            |
| Non-Initiative special projects in 1994–95                      |       | .1            |
| <b>Total</b>  |       | <b>\$ 2.5</b> |

Source: Revenue Canada

**2.59** The results of our file review led us to conclude that the tax impact attributable to unreported income found in these Initiative income tax audits was significantly less than the reported \$300 million for that period. This suggests that the targeting and selection of Initiative income tax audit files need to be improved to increase the effectiveness of the Department's efforts in combatting the underground economy.

**2.60** In total, the tax impact attributable to 1,000 staff assigned to Initiative income tax and GST audits over the last five years is about \$500 million. In our view, the tax impact attributable to unreported gross income as a result of Initiative audits is much less than the \$500 million reported.

**2.61 Collection of the \$2.5 billion impact is uncertain.** As we have pointed out in previous audits, Revenue Canada's systems do not track how much of the reassessed taxes the Department actually collects. This is important because under tax collection agreements, provinces are paid for taxes assessed on their behalf, even if they are not collected.

**2.62 Revenue Canada should record and report the additional gross income identified by its Underground Economy Initiative and non-Initiative enforcement activities, the additional tax due on this unreported income, and how much of the reassessed additional taxes the Department actually collects.**

*Department's response:* Outstanding accounts receivable result from a number of tax assessments including income tax, GST/HST (Harmonized Sales Tax) and source deductions. Such assessments can relate to unreported gross income, as well as to other adjustments. The net amount owing can be affected by various items such as the availability of loss carry forwards and carry backs and the assessment of penalties and interest. Furthermore, payment of taxes occurs in many ways including offsets and

*installments. Associating the source of the tax, or the specific type of adjustment relating to that tax, with a payment in respect to an amount owing would require a number of assumptions, as a direct linkage would not appear to be feasible.*

*Although Revenue Canada's systems currently record the aggregate amount of adjustments made to income and expenses, the systems do not separately record the amount of additional gross income. Recognizing that modifications to systems can be costly and must be balanced against other departmental priorities, the Department will explore options to record the additional gross income identified by its enforcement activities.*

*Notwithstanding the complexity of matching as discussed above, Revenue Canada will also explore options to improve the reporting of collection activity in terms of how much of the additional taxes reassessed from underground economy activities is actually collected.*

**2.63 Revenue Canada should improve the targeting and selection of income tax files to increase the effectiveness of its Underground Economy Initiative audit activities in identifying unreported income.**

*Department's response:* As noted in the chapter, the Initiative involves a balanced approach with one of its main objectives being to detect unreported income.

*The Department has been making significant improvements to its risk assessment systems using external data sources to detect unreported income and estimate taxes at risk. Income tax files that these risk assessment systems identify as being at high risk for unreported income will be used as a basis for file selection for Initiative audits.*

*In addition, as indicated in paragraph 2.71, the Contract Payment Reporting System for the construction industry, which was implemented on a mandatory basis beginning January 1999, will*

**The tax impact attributable to unreported gross income as a result of Underground Economy Initiative audits is much less than the \$500 million reported.**

**Appropriate indicators of performance for the Underground Economy Initiative need to be identified and publicly reported.**

*provide data that will assist the Department in finding unreported income by matching reported payments to subcontractors against income reported on their tax returns.*

*Revenue Canada will continue to improve the targeting and selection of income tax files to increase the effectiveness of its Initiative audit activities.*

**2.64 Performance indicators are not in place.** As indicated in paragraph 2.21, the objective of the Underground Economy Initiative is “to ensure integrity and fairness of the voluntary tax system by addressing underground economy activity and tax evasion to ensure a level playing field.” The expected effects of the Initiative are increased voluntary compliance, changes in Canadian’s attitudes toward tax evasion, and increased compliance in targeted sectors.

**2.65** To date, the principal performance measurement that Revenue Canada uses to assess the results of its actions against the underground economy is the tax impact.

**2.66** The Underground Economy Initiative includes various important activities that may not result in an immediate tax impact, but that are intended to bring about behavioural change, leading to longer-term compliance of taxpayers. Because behavioural change is difficult to measure, a wide range of performance indicators is needed to measure and report on the performance of the Initiative activities and on their long-term effects on compliance.

**2.67** The Department has considered several indicators that could be used to measure and report the results of the broad range of Initiative activities. These include information on the number of non-filers identified and the tax found to be owing following a community visit; the number of voluntary disclosures or informant leads following a community visit; the number of non-filers who

continue to file after being served with a requirement to file; the number of taxpayers who, following an audit, continue to report incomes at the level identified by the audit; the number of requirements issued to keep books and records; the number of taxpayers who, after being required to keep proper books and records, continue to do so; the number of penalties for negligence issued following an audit; and the number of net-worth audits completed. However, the quarterly reports of the Initiative and the Department’s annual Performance Report do not contain performance information on the full range of Initiative activities.

**2.68** We noted that the Department was developing certain tools to better enable it to assess the performance of all enforcement activities, including the Underground Economy Initiative. One of these tools is a new core audit program. Under this program, a sample of randomly selected returns will be audited to estimate the extent of non-compliance in a particular taxpayer population. One of the Department’s objectives for the program is to obtain statistically valid rates of non-compliance by industry sector, and an insight into the relative importance of major sectoral issues such as unreported income and sales, overstated expenses or technical issues. A pilot project is expected to be conducted in 1999–2000.

**2.69** Appropriate indicators of performance for the Underground Economy Initiative need to be identified and publicly reported. Without them, Revenue Canada cannot account for either the performance of the various Initiative activities — individually or collectively — or the extent to which the activities have changed taxpayer behaviour.

**2.70 Revenue Canada should develop indicators to measure and report the results of the full range of Underground Economy Initiative activities.**

*Department's response:* As acknowledged in the chapter, Revenue Canada has considered several indicators that could be used to measure and report the results of the broad range of Initiative activities. In addition, although behavioural change is difficult to measure, a wide range of performance indicators is needed to measure and report on the performance of the Initiative activities and on their long-term effects on compliance.

As indicated in paragraph 2.68, Revenue Canada is in the process of developing a core audit program to better enable it to assess the performance of all enforcement activities, including the Underground Economy Initiative. The core audit program started in January 1999. Guidelines, including a listing of the audits that must be completed as part of this program by the end of December 1999, have already been provided to field staff.

In addition, in its compliance performance reported entitled Compliance: From Vision to Strategy, the Department has published performance indicators that relate in part to the underground economy. These indicators indicate the rate of filing of individual tax returns and the level of self-employment income reported for tax purposes. In both cases, these indicators demonstrate some improvement in compliance.

Nevertheless, Revenue Canada agrees with the recommendation and will continue to implement additional indicators for 1999-2000.

## Legislative Opportunities to Deter Tax Cheats

### 2.71 Reporting requirements.

Beginning 1 January 1999, construction contractors will be required both to record all payments they make to subcontractors who provide construction services and to report those payments to the Department. The reporting system has been operating

voluntarily since 1996 and has now become mandatory. These data will assist Revenue Canada to find unreported income by matching reported payments to subcontractors against their tax returns. The Department plans to look at expanding similar reporting requirements to other sectors that provide home renovation services.

**2.72** Legislation has also been introduced to require that federal government departments and Crown corporations issue information slips for services they purchase from suppliers. Departments will begin issuing information slips in 1999 and Crown corporations will begin the next year.

**2.73 Requesting a refile.** Revenue Canada could pursue legislative authority to undertake another form of enforcement action. For instance, the State of Massachusetts can compel a taxpayer who has filed an insufficient or incorrect return to determine the correct tax liability and file a proper return. The law allows a penalty of up to double the amount of tax owing if it is subsequently found that the taxpayer failed to file a proper return. This provision comes into play once there is probable cause. Some basis of fact must exist that gives cause to believe that a return is insufficient or incorrect.

**2.74 Monetary penalties.** In each of the last three years, Revenue Canada issued about 5,000 requirements to file an income tax return and charged more than 2,000 taxpayers for failing to file. The prosecutions that follow take place in the court system and include a minimum \$1,000 fine. Revenue Canada could consider prescribing an administrative monetary penalty, both for failing to file an income tax return when a requirement has been issued and for failing to keep adequate books and records. The Department could also impose more onerous record-keeping requirements on taxpayers with a serious history of underreporting.

**Revenue Canada could pursue legislative opportunities to deter tax cheats.**

Revenue Canada has so far focussed its efforts on enforcement activities and has not fully implemented other key activities included in its Underground Economy Initiative.

**2.75 Reporting cash transactions.**

Several countries now have legislation requiring the reporting of cash transactions over a certain amount. Canadian legislation currently requires recording of these transactions by banks, but not centralized reporting to an agency mandated to follow up on suspicious transactions. The reporting is helpful in discovering money-laundering activities and in tracking cash sales, which may result in unreported income for tax purposes.

## Conclusion

**2.76** Revenue Canada has always had programs to detect and deter the non-reporting of income. In 1993, in response to a perceived growth in the underground economy, the Department announced a new initiative. As planned, Revenue Canada's Underground Economy Initiative was to include 1,200 staff in a multi-dimensional and balanced approach to combat the underground economy.

**2.77** In implementing the Initiative over the past five years, Revenue Canada has strengthened its resources to detect and audit unreported income by allocating more staff to its non-filers and non-registrants program and to the audit of small businesses, where most of the underground economy activity exists. Thirty-five percent of its audit staff for small and medium-sized businesses are now involved in Initiative audit activities.

**2.78** It is difficult to assess the success of the Initiative enforcement activities in detecting unreported income. The Department includes both the results of regular ongoing enforcement programs and Initiative activities in the reported results of a \$2.5 billion tax impact. In

addition, it does not separately record unreported income and the related additional tax identified through audit. However, in our view, the tax impact attributable to the detection of unreported income by the 1,000 staff allocated to Initiative audit over the five years is much less than the \$500 million reported.

**2.79** The Department has so far focussed its efforts on enforcement activities and has not fully implemented other key activities included in its Initiative. The underground economy involves both businesses and their customers. Revenue Canada needs to complete research to determine how to implement its social marketing strategy to make the public aware of the societal costs of unpaid taxes and to solicit its support in combatting the underground economy. The Department also needs to strengthen the activities that promote voluntary compliance by businesses and improve its targeting of audits to detect and reassess unreported income. As well, there are legislative opportunities to strengthen existing deterrents to participation in the underground economy.

**2.80** The Department has not reported appropriate performance indicators and measured the results of the full range of Initiative activities intended to encourage taxpayers to report all their income.

**2.81** Through the Underground Economy Initiative, Revenue Canada has recovered some additional taxes and sent a message to tax cheats in some sectors that it is determined to deal with the problem. However, the underground economy is a difficult and complex problem to solve and the size of the tax loss is significant. The problem requires continuous attention and sustained efforts from Revenue Canada and all Canadians.



## About the Audit

### Objective and Scope

The objective of the audit was to determine how well Revenue Canada has implemented its Underground Economy Initiative and reported the results.

The audit took place at Revenue Canada headquarters in Ottawa and at various departmental offices throughout the country.

### Criteria

To combat the underground economy, we would expect the Underground Economy Initiative to have in place:

- adequate information on the size of the underground economy and the areas of high non-compliance;
- appropriate tools and techniques to detect, reassess and deter underreporting of income by taxpayers;
- effective activities to promote taxpayers' awareness of their income reporting obligations;
- appropriate measurement and reporting of the impacts of the Initiative; and
- effective co-operation with other jurisdictions and other government departments.

### Audit Team

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**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 3  
Statistics Canada –  
Managing the Quality of Statistics**

**April 1999**



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**Chapter 3**  
Statistics Canada –  
Managing the Quality of Statistics



**April 1999**

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# Chapter 3

**Statistics Canada**

Managing the Quality of Statistics

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

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# Statistics Canada

## Managing the Quality of Statistics

### Main Points

**3.1** Statistics Canada is committed to producing statistics of high quality. It has put in place a wide range of systems and practices to build quality into its statistical programs and to maintain an environment that encourages a concern for quality throughout the organization. However, the quality of the statistics it produces needs to be better documented and reported both within and outside the Agency. The Agency needs to integrate its many quality-related systems and practices better and adopt a more disciplined approach to documentation.

**3.2** The Agency has employed a number of formal quality assessment mechanisms, but individual programs have not applied them consistently. We concluded that the mechanisms currently used do not, either individually or collectively, provide systematic, transparent information on the adequacy of quality management systems and practices in the Agency's statistical programs or on the quality that they actually achieve.

### Background and other observations

**3.3** Statistics Canada is responsible for collecting, compiling, analyzing and publishing statistical information on the economic, social and general conditions of Canada and Canadians. The statistics that the Agency produces support the development, implementation and evaluation of policies, programs and decision making in all sectors. They help us make informed decisions about such matters as where to live, what careers to pursue and how to vote. The Agency is widely respected among its peers, and has an international reputation for independence, innovation and quality that is second to none.

**3.4** Rapid social, economic and other changes have heightened the demand for reliable, objective statistical information on a wide variety of issues. As the demand for and use of statistics grow, their quality becomes increasingly important. Statistics Canada has identified six characteristics that its systems and practices for managing quality need to address: relevance, accuracy, timeliness, accessibility, interpretability and coherence.

**3.5** The Agency carried out self-assessments of four major surveys for our audit. Each assessment reached a positive conclusion about the overall adequacy of quality management. The work was well planned and executed. We concluded that in three of the four surveys, the self-assessments provide reasonable assurance that quality management systems and practices are adequate. In the remaining case, however, we concluded that the weaknesses identified and the recommendations made are more important than the self-assessment suggests, and deserve the attention of senior management.

**3.6** While its policy on informing users of data quality and methodology is clear and well structured, the Agency's implementation of the policy is inconsistent. Consequently, users are not always appropriately informed of the strengths and limitations of statistics. We also noted that while the quality of statistics figures prominently in its commitments to Parliament for results, the Agency's most recent Performance Report, tabled in October 1998, provides only limited information on the quality of the statistics that it produced.

Statistics Canada's responses to our recommendations are included in this chapter. The Agency either agrees to take action or notes that initiatives are under way in the case of six of the eight recommendations we make. In the remaining two cases, the Agency agrees with the intent of our recommendations and indicates that it will consider the issues further.



## Introduction

### Statistics are essential to our society

**3.7** All levels of government, industry and other non-governmental organizations need statistics for a variety of purposes. These include monitoring the country's economic and social conditions; developing performance information; planning and evaluating the policies, programs and investments of governments and the private sector; entering into labour contracts; supporting policy debates and advocacy; and keeping the public informed.

**3.8** Statistics are also used for statutory or regulatory purposes such as determining electoral boundaries; distributing federal funds to provinces; apportioning federal and provincial taxes; determining the eligibility of the unemployed for employment insurance; and indexing payments to beneficiaries

(for example, Canada Pension Plan payments).

**3.9** In addition, statistics about Canada's economic and social conditions keep us informed. They help us in deciding where to live, what careers to pursue and what investments to make, for example. They also support our democracy by helping us make informed decisions about voting and other actions designed to influence governments.

**3.10** Rapid and accelerating social, economic and geopolitical changes have heightened the demand for reliable, objective statistical information on a wide spectrum of issues like the environment, health and provincial economies. As the demand for and use of statistics grow, their quality becomes increasingly important.

### Statistics Canada is responsible for Canada's national statistics

**3.11** Statistics Canada's mandate derives mainly from the *Statistics Act*. The

**As the demand for and use of statistics grow, their quality becomes increasingly important.**



*Statistics about Canada's economic and social conditions help us make informed decisions as individuals and citizens (see paragraph 3.9).*

**Statistics Canada has put in place a wide variety of policies and processes to manage the quality of statistics.**

Act requires the Agency to collect, compile, analyze and publish statistical information on the economic, social and general conditions of the country and its citizens. Statistics Canada also has a mandate to provide professional co-ordination and leadership of the country's statistical system. Consistent with this mandate, it identifies as its mission "to inform Canadian citizens, businesses and governments about the evolution of their society and economy and to promote a high quality national statistical system".

**3.12** With planned gross expenditures of almost \$435 million in 1998–99 (funded by a parliamentary appropriation of \$360 million and revenues of \$75 million), the Agency has some 360 statistical programs and releases more than 1,000 statistical products each year. Its objective is to provide:

...comprehensive and relevant statistical information on the economic, demographic and social structure of Canada in order to support the development, implementation and evaluation of policies, programs and decision-making.

**3.13** As noted in the most recent Annual Report to Parliament of the President of the Treasury Board (*Managing for Results 1998*), Statistics Canada has committed itself to furnishing Canadians with objective and non-partisan statistics. These statistics are intended to provide, for various aspects of Canada's economy and society, measures that:

- are of high quality, relevant to policy formulation and decision making, and responsive to emerging issues; and
- contribute to fulfilling legal requirements, informing Canadians about current and emerging economic and social issues and maintaining a national infrastructure for statistical knowledge.

**3.14** In its view, Statistics Canada's effectiveness depends on, among other things, the safeguarding of respondents' confidentiality, the relevance of its programs, the quality and accessibility of its products, the attainment of high professional standards, and the control of the burden on survey respondents.

**The Agency is committed to producing statistics of high quality**

**3.15** The quality of statistics thus figures prominently in Statistics Canada's effectiveness and in its commitments to Parliament for results. The quality of any product or service is measured by how well it serves users' needs and meets their expectations. From a user's perspective, therefore, the quality of statistics is their "fitness for use". It is a complex concept, which depends on certain fundamental characteristics of quality and on the intended uses of the statistics.

**3.16** While there is a general recognition among statistical agencies that quality is multi-dimensional, and some convergence of opinion about the range of characteristics that make up quality, there is no international standard definition for statistical quality. In common with other reputable statistical agencies, Statistics Canada approaches quality from the user's perspective. Its Quality Assurance Framework document identifies six characteristics of quality that its policies and practices need to address: relevance, accuracy, timeliness, accessibility, interpretability and coherence (see Exhibit 3.1).

**3.17** Over the past 20 years, Statistics Canada has put in place a wide variety of policies and processes to:

- ensure the ongoing relevance of its programs;
- build quality into its programs and products through appropriate design, execution and the use of new technologies; and

- maintain an environment that encourages a concern for quality throughout the Agency.

**3.18** In 1981, for example, senior management of the Agency urged staff to follow a code of behaviour for statistical agencies with respect to quality assurance. Our 1985 follow-up of an earlier audit indicated that the Agency had taken a number of steps to improve its quality management processes. These included issuing comprehensive Quality Guidelines; revising its 1978 Policy on Informing Users of Data Quality and Methodology; establishing a National Statistics Council; and implementing a long-term planning process. These quality-related tools and mechanisms remain in effect, and others have since been introduced.

**3.19** Within the framework of the policies, guidelines and other initiatives that are in place, it is generally left to each program manager to select and implement the quality management techniques that are appropriate to their specific programs.

#### Focus of the audit

**3.20** We examined Statistics Canada's systems and practices for assessing the adequacy of quality management in its statistical programs, and for reporting to users on the quality of its statistics and to

Parliament and the public on its performance.

**3.21** In view of the technical complexities involved and the professional expertise available within the Agency, we proposed that it carry out self-assessments of a number of statistical programs as an integral part of our audit, focussing on the adequacy of systems and practices for managing quality. The Agency agreed to this proposal and completed assessments of four of its major surveys.

**3.22** Our objectives in this audit were to determine whether Statistics Canada:

- systematically assesses the adequacy of quality management systems and practices in its statistical programs to ensure that it has the information it needs to manage and report on quality;
- can provide reasonable assurance, based on its self-assessments, that quality management systems and practices in the four selected surveys are adequate; and
- appropriately informs users about the quality of data and the methodology used to develop the statistics.

**3.23** Further details on the audit can be found in **About the Audit** at the end of the chapter.

**Accessibility:** A characteristic relating to the availability of information from the holdings of the Agency.

**Accuracy:** The degree to which data correctly estimate or describe the quantities or characteristics that the statistical activity was designed to measure.

**Coherence:** The degree to which data and information from a single statistical program, and data brought together across data sets or statistical programs, are logically connected and complete.

**Interpretability:** The ease with which a user may understand and properly interpret data or information.

**Relevance:** A qualitative assessment of the value contributed by data.

**Timeliness:** The length of time between the availability of information and the event or phenomenon it describes, considered in the context of the time period that permits the information to be of value and still acted upon.

#### Exhibit 3.1

#### The Six Characteristics of Quality – Statistics Canada's Perspective

**Source:** An Outline of Statistic Canada's Quality Assurance Framework

## Observations and Recommendations

### Corporate Assessment of Quality

#### Information on quality is required for management and accountability

Managing quality across or within statistical programs is an ongoing balancing act.

**3.24** Because of constantly changing user needs and the complex nature of quality, it is an ongoing balancing act to manage quality across statistical programs as well as in any single program. For example, in a climate of fiscal restraint, demands for new statistical series may require the acceptance of lower quality in some existing series. Similarly, meeting demands for increased timeliness in a statistical program may involve some trade-off with other characteristics of quality, such as accuracy.

**3.25** In addition to this internal balancing act, the Agency is committed to external reporting. It reports to Parliament and the public on its performance, and to users on the quality of its statistics. We believe that Statistics Canada thus needs to have meaningful information on the adequacy of its quality management systems and practices (including information on the quality of its statistics) to help improve its statistical programs, support corporate decision making and assurance, and report externally on its performance in achieving quality.

**3.26** Thus, we expected that the Agency would systematically assess the adequacy of its quality management systems and practices in individual statistical programs, and assess the quality actually achieved. Such assessments, reported at the corporate level, are particularly important given the wide latitude managers have to select and implement quality management techniques in individual programs.

#### A number of assessment mechanisms have been used

**3.27** We found that, like other statistical agencies, Statistics Canada has used a number of different mechanisms to assess quality. Appendix A provides a brief overview of approaches to quality assessment and reporting that we observed in some of the other statistical agencies we visited.

**3.28 Program evaluations.** In the 1980s the Agency established a corporate program evaluation function. Over a span of five years, it completed 19 evaluations of statistical programs, drawing heavily on feedback from major users. The evaluations made some 200 recommendations for improvements to help meet user needs; many of the recommendations were implemented. In 1991–92, following an assessment of this first cycle of evaluations, the Agency devolved responsibility for evaluation to program managers (see paragraph 3.31). There have been no corporate program evaluations by the Agency since then.

**3.29 Internal audits.** In 1990 the Agency carried out an internal audit of compliance by individual statistical programs with the Agency's Policy on Informing Users of Data Quality and Methodology. It found that many of the audited programs did not fully comply with the Policy, and proposed that a follow-up audit be carried out two to three years later (that is, in 1994–1995). In view of other priorities, the follow-up was postponed to 1998. After we set out our plans for this audit, the Agency decided not to proceed with the follow-up. Although the Agency retains an internal audit function, we found that in recent years it has carried out no audits focussed specifically on managing the quality of statistics.

**3.30 Program Reports.** As a means of devolving responsibility for evaluation to

program managers, in 1991–92 the Agency introduced a requirement that each program produce a detailed annual Program Review Report as input to the Agency’s Long-term Planning Process. A subsequent change required Program Reports to be produced every two years. The Program Reports are designed to be self-evaluation reports from program managers to the Chief Statistician of Canada on the achievement of program objectives. According to the planning guidelines, the reports should pull together from various sources the key findings on program performance and include extensive indicators of quality.

**3.31** Although these Program Reports have been used in the Agency’s Long-term Planning Process, we found that they have not always been submitted on time. Twelve of the 19 product-related Program Reports scheduled for the first two-year cycle had been submitted when we completed this audit, and only one of the 15 scheduled for the second cycle. One reason why the Reports are late is that many of the programs are being revised under the Agency’s ongoing Project to Improve Provincial Economic Statistics (PIPES). That project itself has

important implications for the assessment and reporting of statistical quality (see Exhibit 3.2).

**3.32** We also found that when Program Reports were submitted, they did not always include quality indicators as described in the guidelines for preparing these reports. Finally, we found that some Reports did not cover all the programs for which the reporting manager was responsible. We note, however, that some of the reporting managers are responsible for a great many programs — more than 60 in one case.

### **3.33 User input and feedback.**

Statistics Canada uses a variety of mechanisms to obtain user input and feedback on its statistical outputs. These help it to keep its programs relevant and to meet the evolving needs of those who use its products. The mechanisms include:

- the National Statistics Council, which advises the Chief Statistician on program priorities and the full range of the Agency’s activities;
- a Federal-Provincial-Territorial Consultative Council on Statistical Policy, and its sub-committees;

## **Exhibit 3.2**

### **Project to Improve Provincial Economic Statistics (PIPES)**

On 23 October 1996, the governments of Canada, Newfoundland, Nova Scotia and New Brunswick agreed to combine their individual sales taxes into a single “Harmonized Sales Tax”. Since 1 April 1997, there has been a single sales tax rate of 15 percent in the three provinces instead of three separate provincial sales taxes and a distinct federal Goods and Services Tax. Revenue Canada collects the revenues from the combined taxes, and the final allocation among the four governments is determined on the basis of a formula using aggregate statistics compiled by Statistics Canada.

The quality of the statistical information used for this allocation must meet demanding requirements. In February 1997, the Treasury Board authorized Statistics Canada to proceed with the Project to Improve Provincial Economic Statistics (PIPES). A total of \$74.5 million and 780 full-time equivalents were allocated for PIPES over two years, 1997–98 and 1998–99. The objective is to measure the final sale of goods and services accurately by province, in sufficient detail and in a timely manner. A combination of administrative records and improved business and household surveys will be used to produce the required information. Each piece of information will be assessed within the framework provided by a detailed set of provincial Input-Output Accounts.

To demonstrate quality improvements to stakeholders, Statistics Canada has undertaken to develop concrete measures of quality for these statistics. Various types of quality information, indicators and profiles are to be developed. A data quality analysis is to be carried out annually and the information on quality will be tracked from year to year.

Source: Statistics Canada

The Agency's formal mechanisms do not provide systematic information on the adequacy of quality management processes or on quality achieved.

- professional advisory committees in major subject areas;
- bilateral relationships with key federal departments and agencies;
- a variety of ad hoc task forces; and
- surveys and studies of user satisfaction.

**3.34 The Statistical Data Documentation System.** In the early 1980s the Agency implemented the Statistical Data Documentation System (SDDS), an information system to support planning, evaluation and marketing as well as other management functions. The SDDS was designed to contain detailed information on each survey (for example, its content, coverage, design and methods).

**3.35** We found that the information entered into the system has been little used for evaluation and planning. In recent years the SDDS has been used mainly to produce the *Guide to Statistics Canada's Programs and Products*, the first document that many users consult for information about the Agency's products.

**3.36** Program managers submit annual updates to the SDDS, but SDDS staff do not verify their completeness. A "data quality" section for each survey is required to describe briefly the most important sources of error, and to provide quantitative measures and qualitative descriptions of data quality. However, we were told that one in every six surveys had no information about data quality in the SDDS. Further, our review showed that where such information was available, it often failed to describe quality in a consistent and meaningful way.

**Formal assessment mechanisms are not applied consistently**

**3.37** We recognize that the Agency has a number of informal processes for

assessing and monitoring quality, including personal knowledge and verbal presentations. Nevertheless, in government documents and other sources it has emphasized the importance of formal and interrelated processes (paragraphs 3.28–3.36) for documenting and monitoring performance, including quality.

**3.38** As already noted, Program Reports, one of the Agency's key formal mechanisms currently used for evaluating programs, are frequently not submitted on time and may lack some of the required information. Although valuable in their own right, other formal mechanisms (such as internal audits, the processes related to the SDDS, and processes for gathering client input and feedback) have not filled this gap.

**3.39** We concluded that the Agency's formal quality assessment mechanisms are not applied consistently. As a result, they do not provide, either individually or collectively, systematic and transparent information on the adequacy of quality management systems and practices in the Agency's statistical programs or on the quality they actually achieve.

**3.40 Statistics Canada should ensure that formal quality assessment mechanisms are applied consistently so that they provide systematic information on the adequacy of quality management systems and practices in individual statistical programs and, to the extent possible, information on the quality that they achieve.**

*Agency's response: We agree with the need to improve compliance related to some of our internal reporting mechanisms. However, we maintain that this lack of compliance has not in any way jeopardized the quality of our statistical output. We have already launched an initiative to improve internal reporting.*

## Statistics Canada's Self-Assessment of Four Surveys

### The Agency assessed the adequacy of quality management systems and practices

**3.41** Statistics Canada agreed at the outset of our audit to carry out self-assessments of four major surveys as a one-time project. The objective was to assess the adequacy of quality management systems and practices in the four surveys. The work was carried out under the Quality Assurance Framework that the Agency had documented before undertaking the assessments, and in the light of the priorities and resources that management had allocated to the surveys.

**3.42** We selected the surveys jointly with Statistics Canada, based on their significance to users and their public profile, as well as the range of subject matter and data collection techniques they represented. Exhibit 3.3 provides brief descriptions of the selected surveys: the Consumer Price Index, the Labour Force Survey, the Monthly Survey of Manufacturing and the Uniform Crime Reporting Survey.

### The self-assessments were well planned and executed

**3.43** The self-assessments were conducted in two stages. As a first step, Program Divisions were asked to document the quality management activities for the selected surveys. This

**Consumer Price Index (CPI):** This survey provides a measure of the rate of price change of goods and services bought by Canadian consumers. The CPI is obtained by comparing, over time, the cost of a fixed “basket” of commodities purchased in a particular year. It is the most widely used indicator of price changes in Canada, and is often used as a measure of inflation (or deflation). It is used for adjustments to social and welfare payments, rental agreements, spousal and child support payments, and other forms of contractual and price-setting arrangements (for example, cost-of-living adjustments and labour contracts governing wages).

**Labour Force Survey (LFS):** This is a monthly survey that collects data on the labour market activities and demographic characteristics of working-age Canadians. It is also a vehicle for supplementary surveys of the labour market. The LFS started in November 1945 and has evolved over the years, with major changes to its content and sample design in 1976 and 1997. Data are collected from a sample of 52,350 households, involving some 110,000 respondents. The sample has been designed to be representative of working-age Canadians, with the exception of residents of the Yukon and the Northwest Territories, persons living on First Nations reserves, inmates of institutions and full-time members of the Armed Forces (these exclusions account for about 3 percent of the population).

**Monthly Survey of Manufacturing (MSM):** This survey collects information on the value of shipments, inventories, and unfilled and new orders in Canada's manufacturing industries. Data since 1947 are available. It is used to monitor the business cycle in the key manufacturing sectors of the economy, to evaluate and develop financial and industrial policy, and to provide market data at the detailed industry level. The MSM sample consists of approximately one third of establishments in manufacturing industries in Canada. The survey questionnaire, sample frame, and processing system are currently being redesigned.

**Uniform Crime Reporting (UCR) Survey:** This survey collects data on the nature and extent of crime in Canada. In 1962, the UCR Survey began collecting aggregate data on reported crime substantiated through police investigation. The survey is based on the administrative records maintained by police forces. Revisions in 1983 resulted in the phased implementation of incident-based data collection, starting in 1988 (UCR2). Since then, police forces have continued to convert to the UCR2. The UCR2 Survey currently has 180 police forces reporting to it whose data represent about half of the national volume of reported crime. UCR2 data are converted to obtain national coverage at the level of aggregate estimates.

#### Exhibit 3.3

#### Brief Descriptions of the Four Surveys Assessed by Statistics Canada

Source: Statistics Canada

**We reviewed the self-assessments of four major surveys that Statistics Canada carried out for our audit.**

recognized the fact that each Program Division possesses a unique set of knowledge and expertise.

**3.44** The Agency developed a set of guidelines to help each Program Division describe systematically the way it manages quality in the planning, design, execution and analysis phases of the survey, as well as in its overall management. Exhibit 3.4 shows the types of information the Program Divisions were asked to provide.

**3.45** The second step in the self-assessment involved review teams of experienced Statistics Canada staff drawn from outside the program areas. They assessed the information and reached conclusions about the adequacy of quality management systems and practices. The review teams provided a degree of independence to help ensure an objective, fair and equitable review process. A senior-level Steering Committee provided

guidance and oversight to the work of the review teams.

**3.46** The self-assessment process began in January 1998, with the Uniform Crime Reporting Survey serving as a pilot. The pilot provided feedback and evidence on the viability of the approach. On the basis of this pilot, the self-assessments of the other surveys were initiated in May 1998. Reports documenting the results of the self-assessments were available to us by early September 1998.

**3.47** Throughout the process, we maintained close contact with the Agency's Steering Committee and the review teams. We reviewed the planning and execution of the self-assessments, reviewed the supporting documentation and held follow-up discussions with the Agency's review team and program managers as well as interviews with users of statistical products.

**3.48** Overall, we found that the self-assessments were carried out in

*Statistics Canada conducted self-assessments of quality management in four major surveys (see paragraphs 3.41–3.48)*



accordance with the methodology and schedule agreed to with our Office. The descriptions prepared by Program Divisions provided the background information needed to understand the programs in general and the management of their quality in particular. The review teams were independent of Program Divisions and knowledgeable about quality management as well as about the surveys they were reviewing. We concluded that the self-assessments were generally well planned and executed.

### The conclusions of three of the four self-assessments were consistent with the evidence

**3.49** The following excerpts show that the self-assessments reached positive conclusions about the overall adequacy of quality management systems and practices in each of the four surveys:

- **Consumer Price Index (CPI).** “...in spite of some inherent weaknesses that are not unique to Canada, the CPI remains an indicator which is relevant, reliable and well in line with the needs of its key

users... [The Agency] has put proper mechanisms in place to continuously improve this widely used macro-economic indicator.”

- **Labour Force Survey (LFS).** “LFS processes for monitoring and assuring quality are appropriate given the profile of the program and the resources that are available to carry it out.”

- **Monthly Survey of Manufacturing (MSM).** “...the processes for ensuring the maintenance of quality are adequate for a survey of its prominence and given its budget.”

- **Uniform Crime Reporting Survey (UCR).** “Given the nature of the program and its objectives, budget and constraints, no major changes to the overall quality management and quality assurance program...are being recommended. Some improvements in specific areas could be made without significant cost. These are matters of ‘fine tuning’.”

**3.50** In three of the four cases, we found sufficient appropriate evidence to support these overall conclusions. We concluded that the self-assessments

- A description of the survey, its goals and objectives, the major uses and users, the methodology, its data products, costs and sources of funding.
- A description of the evolution of the survey, and the context in which these changes were made.
- How the relevance of the survey is ensured, including feedback mechanisms to assess the level of satisfaction of major users with data products.
- Overviews of the latest redesign and research activities affecting the survey.
- A description of the steps that are built into the design and implementation to ensure quality.
- An outline of mechanisms imbedded in the survey to check for consistency and coherence and handle discrepancies.
- A description of the activities involved in monitoring quality measures, such as sampling error, response or imputation rates.
- An outline of the survey management structure, both for ongoing operations and development activities (redesign or re-engineering).
- A description of how decisions on changes in the scope, methodology, or level of funding affecting the survey are made, including all review mechanisms within and outside Statistics Canada.
- A description of how corporate initiatives in areas such as human resource management are affecting the survey.
- Any current important issues that can affect the relevance or credibility of the Program.

### Exhibit 3.4

Information Provided by  
Program Divisions for  
the Self-Assessments of  
the Surveys

Source: Statistics Canada

provided reasonable assurance that quality management systems and practices are adequate in the Consumer Price Index, Labour Force Survey and Monthly Survey of Manufacturing. In the case of the Uniform Crime Reporting Survey, we believe the weaknesses identified, and the recommendations made, are more important than the self-assessment suggests.

**3.51** As a component of the National Justice Statistics Initiative, the purpose of the UCR Survey is to help ensure that the Canadian public has accurate information on the nature and extent of crime in Canada. The UCR Survey relies on administrative data provided by police forces across the country. As a result, Statistics Canada has less direct control over the completeness and the quality of the data than in those cases where it collects survey data itself. The two key factors that affect the quality of the UCR statistics, therefore, are the participation of all police forces in Canada and the integrity of the record systems maintained by them. The self-assessment clearly reports quality weaknesses in both these areas.

**3.52** An additional complicating factor is that the UCR Survey relies on two conceptually different surveys that run in parallel. Some police forces report summary data on the number of offences (UCR1). Others provide detailed data on individual criminal incidents, including, for example, the age and sex of victims and offenders, the level of injury, weapons involved, location of incident and dollar values of property and drug crimes (UCR2). Statistics Canada converts the UCR2 data to summary data and combines them with UCR1 to publish crime statistics at the national level. In addition, it publishes the UCR2 data that are available. Although considerably richer for purposes of analysis, the published UCR2 data are limited by the fact that they cover only about half the

reported crime in Canada and are not representative of Canada as a whole.

**3.53** In our view, these circumstances place a particular onus on the Agency to inform potential users as clearly as possible about the quality of the UCR data and limitations on their use. We note that while the UCR review team made recommendations to strengthen practices for managing the relevance and interpretability of the survey (see Appendix B), its overall conclusion states that “no major changes are being recommended” and labels the recommendations as “fine tuning”. Although the meaning of terms such as “major changes” and “fine tuning” are clearly matters of judgment, we believe the recommendations are more important than the self-assessment suggests and deserve the attention of senior management.

**3.54** Appendix B includes excerpts that summarize the self-assessments’ conclusions about the four surveys under each of the six characteristics of quality, along with our comments. In most cases, we agree with the review teams’ conclusions and with the opportunities for improvement that they identified. In some cases, we point to additional areas where we believe that quality management practices, including the reporting of quality, can be improved.

#### **A wider application of the self-assessment technique merits consideration**

**3.55** Although Statistics Canada carried out the four self-assessments as a one-time exercise for our audit, our review of the process and the results of the assessments suggest that a wider application of this technique merits consideration — especially as the Agency does not now have other independent assessment mechanisms in place. If the Agency were to apply the technique more broadly, it would need to ensure that

assessments were carried out rigorously and that their conclusions were clear.

**3.56** The constraints on the self-assessments carried out for this audit would need to be removed. The four self-assessments set out to examine the adequacy of quality management practices explicitly within the context of the priorities and resources allocated to the programs by corporate management. Consequently, the assessments looked only at whether the programs did what could reasonably be expected in prevailing circumstances to manage quality. In addition, they did not set out to assess or to comment on the quality actually achieved in the four surveys.

**3.57** We believe that a stronger focus on results would enhance the self-assessment technique. The following kinds of issues would need to be assessed:

- the appropriateness of survey design parameters, including quality targets as appropriate;
- the extent to which design parameters have been achieved;
- changes in quality since the last assessment;
- the nature and extent of reporting on quality to users and the public;
- documentation of key decisions affecting quality, and rationales for such decisions; and
- the adequacy of methods to control the quality of data from external sources.

**3.58** We believe that a wider application of self-assessments would likely also require some training of reviewers in assessment techniques, as well as documented guidance for review teams.

**3.59** Statistics Canada should review the potential for a wider application of an enhanced self-assessment technique

**as one component of the formal processes it uses to assess quality.**

*Agency's response: We will consider the benefits and costs of applying this technique as one component of our quality management approach.*

## Reporting Performance to Parliament

**The Agency's Performance Report to Parliament provides limited information on quality**

**3.60** The government reformed its Expenditure Management System in 1995. Part of that reform included providing better planning and performance information to Parliament. Departmental Performance Reports are now tabled in the fall to start the cycle of budget and business planning decisions. Among other things, these reports are to provide information on results achieved, important management initiatives and financial performance for consideration by parliamentarians in the Estimates and Supply process. Reports on Plans and Priorities, which reflect decisions based on performance and government priorities, are tabled in the spring.

**3.61** As already noted, the Agency has committed itself to providing Canadians with high-quality statistics that are relevant to policy making and responsive to emerging issues. In many of its policies and processes it gives a central place to the quality of statistics. We therefore expected to find quality-related performance indicators in the Agency's Performance Report for the period ended 31 March 1998, which was tabled in October 1998.

**3.62** Under the heading "Information Quality", the Performance Report notes that Statistics Canada uses a wide range of quality assurance practices and conducts intensive "institutional" quality verification of all data releases. Under the same heading, the Report notes that

**A stronger focus on results would enhance the self-assessment technique.**

The Agency's most recent Performance Report provides no performance information about the accuracy, interpretability or coherence of the statistics it produced.

indicators of data quality are included in all publications, although our review, and the Agency's own assessments, showed that this is not always the case (see **Informing Users About Data Quality and Methodology** on this page).

**3.63** The Performance Report includes some descriptions of processes used to keep programs relevant — including external advice and user feedback — and provides examples of changes made as a result. With respect to timeliness, the Report shows the time elapsed between the reference period and the release dates for six major surveys; but it provides no rationale for selecting only these surveys from among some 360 statistical programs. For 28 selected outputs in “major subject areas”, the Report includes the frequency of publication (for example, monthly or quarterly) and indicates whether they were released on schedule in 1997–98.

**3.64** The only other quality-related indicators in the Report are indicators of accessibility. They provide some information about the growing use of the Agency's Internet site, as well as changes to the statistical information available there.

**3.65** Overall, we concluded that the Performance Report contains only partial information about the Agency's actual performance in terms of the six characteristics it has identified as central to quality. In particular, the Report provides no performance information at all about the accuracy, interpretability or coherence of statistics.

**3.66** We were told that the process used to gather information for the Performance Report was informal and not linked explicitly to other quality-related initiatives. Program Reports were consulted to some extent. However, no use was made of the Statistical Data Documentation System, which could be a key database to generate quality-related indicators for external reporting.

**3.67** Statistics Canada should improve the coverage and content of information on statistical quality in its annual Performance Report to Parliament by drawing on quality information available from internal assessment and reporting systems.

*Agency's response:* We will review the content of the annual Performance Report to Parliament to improve the way in which information on statistical quality is presented. However, we do not believe that it is possible to produce simple summary quality measures across a wide variety of programs in a way that is useful and meaningful for Parliament.

## Informing Users About Data Quality and Methodology

**3.68** All statistics are, to some extent, estimates of the reality they seek to convey. Therefore, they have to be used in full awareness of their strengths and limitations. Unlike users of many products and services, however, users of statistics cannot readily assess all of the important quality characteristics of the data produced by Statistics Canada. For the most part, users have to rely on the Agency's integrity and professionalism, as well as what it tells them about data quality and the methodology used to collect and compile the data.

**3.69** Statistics Canada recognizes the need to provide potential users with information about data quality and the concepts, definitions and methods used, so they can determine whether the statistics fit their purposes and can make informed use of them. Since 1978, the Agency has had a Policy on Informing Users of Data Quality and Methodology.

## A 1990 internal audit found inconsistent practices

**3.70** As we have noted, in 1990 the Agency carried out an internal audit of its compliance with this policy on informing users. In a sample of 20 “major” and

50 “other” surveys, the audit identified many instances of non-compliance.

**3.71** The internal audit report made a number of important observations and recommendations on Statistics Canada’s dissemination of quality-related information to users. For example, the report stated that:

- as a minimum, an explicit reference to a source of information on methods, concepts and definitions should be a mandatory requirement in all catalogued publications;
- consideration should be given to requiring a standard statement in each publication to the effect that “the data included in this publication are subject to various coverage, response [and other] errors”, as applicable;
- every product should undergo a low-cost annual assessment and certification process using existing data quality indicators as a minimum. The results should be summarized or referenced in the statistical product; and
- where no quality assessment or supportable statement on major aspects of quality is available, this should be stated clearly in the related publications.

#### **The Agency’s Policy is clear and well structured**

**3.72** In 1992 the Agency updated its Policy on Informing Users of Data Quality and Methodology and, in doing so, implemented many of the recommendations of the 1990 internal audit. The key elements of the current Policy are set out in Exhibit 3.5. We assessed the Policy and found it to be well structured. It sets out clearly the expectations for program managers, both mandatory and discretionary.

**3.73** We compared Statistics Canada’s Policy with the approaches taken by reputable statistical agencies in other countries. We found that while all of these

agencies recognized the need to inform users of data quality and methodology and had taken steps to do so, not all of them had documented policies in place. The policies that we saw varied in their structure and content. Although some were quite similar to that of Statistics Canada, none, in our view, were more advanced.

#### **The Agency’s practices in informing users continue to be inconsistent**

**3.74** As noted in paragraph 3.29, the Agency decided not to carry out the follow-up of the 1990 internal audit that had been planned for 1998. We therefore carried out a limited test of its disclosure practices.

**3.75** We assessed a selection of 10 products to determine the nature and extent of disclosure about data quality and methodology both in hard copy publications and electronic media. We used criteria based on the 11 mandatory minimum requirements specified in the Agency’s current Policy on Informing Users of Data Quality and Methodology (see Exhibit 3.5).

**3.76** Our test showed that disclosure of information on data quality and methodology in the Agency’s products did not always comply with the mandatory minimum requirements of the Policy. Therefore, users are not always appropriately informed of the strengths and limitations of statistics. Disclosure was inconsistent across products. Specifically, we noted the following:

- Disclosure of data quality and methodology is not clearly or consistently identified as such. For example, data quality is often discussed in sections titled “Note”, “Technical Notes” or “Survey Overview”.
- Information is generally more on the definition of errors or description of quality control processes than on actual quality achieved. Few quantitative measures of quality are provided.

**The Agency has a clear policy on informing users of data quality and methodology, but it is not applied consistently.**

- Coefficients of variation are often the only indicators of quality given. While coefficients of variation may be helpful for technical users, many other users have difficulty understanding them. We believe that users need also to be provided with simple, understandable statements or indicators of data quality whenever possible.

**3.77** We found also that disclosure was inconsistent across media of dissemination. In particular, information available on or through the Agency's Internet site showed weaker compliance than printed publications.

**3.78** To ensure that its Internet site complies with its policy on informing

Exhibit 3.5

Policy on Informing Users of Data Quality and Methodology – Key Elements

| Section                   | Contents  |
|---------------------------|---|
| <b>Policy</b>             | Five statements spell out the intent of the policy: <ol style="list-style-type: none"> <li>1. Indicators of data quality and methodology are made available to users.</li> <li>2. Documentation must conform to standards and guidelines.</li> <li>3. Products are accompanied by or refer to such documentation.</li> <li>4. Exemption must be approved.</li> <li>5. Cost-recovery surveys are encouraged to follow the same practices.</li> </ol>   |
| <b>Responsibilities</b>   | <p><b>Individual Programs</b></p> <ul style="list-style-type: none"> <li>– Inform users of the availability of information on data quality and methodology.</li> <li>– Disseminate existing measures or descriptions of data quality and documentation on methodology.</li> <li>– Implement procedures to generate information on data quality.</li> </ul> <p><b>Methods and Standards Committee</b></p> <ul style="list-style-type: none"> <li>– Report periodically on the state of compliance with the Policy.</li> <li>– Provide standards and guidelines to Programs.</li> <li>– Approve applications for exemption from the Policy requirements .</li> </ul>  |
| <b>General Principles</b> | General principles governing implementation are provided.   |
| <b>The Standards</b>      | Eleven mandatory minimum requirements are specified: <ol style="list-style-type: none"> <li>1. An explanation of fundamental concepts.</li> <li>2. Basic definitions, including: <ul style="list-style-type: none"> <li>– universe and target population;</li> <li>– key characteristics;</li> <li>– key indicators or data being disseminated.</li> </ul> </li> <li>3. Time frame or reference period.</li> <li>4. Advice that data are subject to error.</li> <li>5. Advice that data may be subject to revisions.</li> <li>6. Advice that data may not be comparable over time.</li> <li>7. Coverage error or data quality rating.</li> <li>8. Sampling error for key characteristics.</li> <li>9. Response rate and extent of imputation.</li> <li>10. For administrative data, overall quality rating.</li> <li>11. Potential sources of error.</li> </ol> |
| <b>The Guidelines</b>     | Guidelines on how to provide additional information on data quality to all users and for different types of data.   |

Source: Policy on Informing Users of Data Quality and Methodology, 1992

users, the Agency recently began to develop an Integrated Meta Database to replace the SDDS. It is to contain information on the data quality, concepts and underlying methodology of each Agency survey, and is to be accessible to all Internet users. Because the new database was still being developed at the time of our audit, we were unable to assess the nature and extent of the information it contains.

**3.79** Our findings on the lack of information and the inconsistencies in disclosure are in accordance with the Agency's findings on "interpretability" in the four self-assessments it carried out (see Appendix B).

**3.80** Statistics Canada's Methods and Standards Committee has functional responsibility for the Policy on Informing Users of Data Quality and Methodology, and is mandated to monitor its implementation. However, we found that the Committee has not done so, nor has it produced the periodic reports on the state of compliance that the Policy requires. We noted, too, that while program managers can ask the Methods and Standards Committee for exemptions from compliance with the Policy, no such exemptions have been requested or granted.

**3.81** The Agency's *Guide to Statistics Canada's Programs and Products* includes some information on data quality and methodology. However, our review showed that practice with respect to the inclusion of such information is inconsistent across programs. In some cases no information is provided; in others, information on the source and definition of possible errors is included. In still others, actual indicators of data quality are provided. Although the policy on informing users does not apply to the Guide, including information on data quality and methodology could help the many users who would consult the Guide

first when seeking information about the Agency's products.

**3.82** Officials in the other statistical agencies we visited indicated that their own quality disclosure practices were also inconsistent. Most officials acknowledged that they could, and should, do better. Disseminating statistics by means of new technologies, such as the Internet and compact discs, was widely recognized as a particular challenge.

**3.83** Statistics Canada should ensure that its Policy on Informing Users of Data Quality and Methodology is applied consistently across products and dissemination media.

*Agency's response: Agreed.*

**3.84** In informing users of data quality and methodology, Statistics Canada should:

- use a clear and standardized heading in all printed and electronic documents for a section that provides information on data quality and methodology, or that refers the user to a source where such information can be found; and
- establish a flexible disclosure framework to define the contents of the data quality and methodology section in individual statistical products and related documents, to ensure that the intent of the Policy is met. The framework should allow for variations in the depth and breadth of the information provided, depending on the program, product or medium of dissemination.

*Agency's response: Agreed*

## An Integrated Approach to Managing Quality

**Many building blocks are in place**

**3.85** After-the-fact assessments of quality cannot replace measures that build quality into statistical programs —

We believe there is a need for each statistical program to demonstrate regularly that it has met design parameters or quality targets.

appropriate design and execution, the use of suitably qualified and motivated staff, the effective management of resources and activities, and a corporate culture of integrity. We support the Agency's emphasis on building quality in through these and other means, and its approach to giving managers discretion to use the best techniques available to pursue quality in the Agency's diverse statistical products.

**3.86** However, we believe there is a need for each statistical program to demonstrate regularly — through self-reporting, some form of independent assessment, or both — that it has met design parameters or quality targets, such as sample size and response rate (see paragraphs 3.40 and 3.59). The frequency and depth of such reporting would need to be decided with due consideration to the cost, complexity and importance of the statistical programs concerned. Without systematic quality assessments, it is questionable whether the Agency can assure itself, or others, that the systems and practices it uses to build in quality are effective.

**3.87** The Agency has many quality-related policies, guidelines and systems that could become the basis for effective quality assessment and reporting. Many of the necessary building blocks are already in place, and recent experience with the self-assessment approach may point to a useful addition. However, we believe that the Agency needs to reshape some of these building blocks and reorient others to make them more cohesive. A basis for such integration could be the newly documented Quality Assurance Framework, which sets out what the Agency considers to be the key characteristics of quality in statistics, and describes the processes already in place to manage quality.

#### **Better integration and documentation are needed**

**3.88** The Agency's quality-related initiatives were developed over a long

span of time by different units in the organization. For example, the Statistical Data Documentation System was developed by the Standards Division; the Quality Guidelines by a team of professionals drawn from various units; the Policy on Informing Users of Data Quality and Methodology by the Methods and Standards Committee; and the Performance Report and guidelines for Program Reports by the Corporate Planning Division. Although many of these initiatives were developed under the purview of the Methods and Standards Committee, the Agency has not had a focal point with specific responsibility to ensure their co-ordination and integration. Nor does it have such a focal point now.

**3.89** We noted that definitions and requirements relating to quality of statistics are not always consistent. For example, the term "quality" itself has taken on new dimensions over time, expanding from the more traditional meaning of accuracy to one that reflects an explicit user orientation. Today, quality is defined or described differently in various policies, guidelines and systems.

**3.90** We also noted that internal and external reporting requirements are not co-ordinated and sometimes overlap. Besides being required to disclose information on data quality and methodology to users of each of their products, program managers are currently required to update the Statistical Data Documentation System annually, prepare Program Reports every two years and provide input to the Agency's annual Performance Report to Parliament. Because these different reporting requirements are not co-ordinated, each one leads to additional work and can generate new streams of quality-related information. This may contribute to the difficulties that program managers and the Agency itself face in satisfying all the reporting requirements adequately.

**3.91** The Agency's Policy on Informing Users of Data Quality and

Methodology establishes expectations for managers that are stronger than those established by the Quality Guidelines. The former clearly sets out “minimum standards” for disclosure by program managers. The latter — a “collection of methods, procedures and practices that govern the pursuit of quality objectives” — includes no mandatory requirements. As already noted, the Quality Guidelines give program managers latitude to select and implement whatever practices they consider appropriate in their particular circumstances.

**3.92** The fact that standards for informing users are mandatory, while the guidelines for documenting quality are discretionary, may contribute to program managers overlooking or violating mandatory minimum requirements to inform users. Both our audit and the Agency’s self-assessments showed that many of the programs examined did not comply fully with the Policy on Informing Users of Data Quality and Methodology.

**3.93** We believe that if quality were defined more consistently, and if quality assessment, documentation and reporting were better integrated, the burden on program managers and the Agency could be reduced. The Integrated Meta Database (the planned successor to the Statistical Data Documentation System) could be used consistently to document, for each survey, key quality-related decisions and the rationales for them, as well as quality indicators (as the Agency’s Quality Guidelines already suggest). The Database could then become a central repository of information on quality to support consistent and effective internal reporting and external disclosure.

**3.94** We believe that co-ordinated quality-related policies, guidelines, systems and processes, and a more disciplined approach to documentation, would help provide more systematic information about quality to support management and reporting. A more

disciplined approach means better, not necessarily more, documentation.

**3.95** Statistics Canada should make its quality-related policies, guidelines and systems more coherent and cohesive by:

- reconciling differences in definitions of quality; and
- co-ordinating the requirements for internal documentation and external reporting.

*Agency’s response:* Agreed.

**3.96** Statistics Canada should co-ordinate the development of the Integrated Meta Database with other quality-related initiatives and take steps to ensure the ongoing completeness and reliability of the Database.

*Agency’s response:* Agreed. The integration of quality-related information was already recognized as one objective of the development of the Integrated Meta Database, and is under way.

**3.97** Statistics Canada should assign to a corporate focal point the responsibility for promoting an integrated, consistent approach to developing and implementing quality-related initiatives throughout the Agency, including the assessment and reporting of quality.

*Agency’s response:* We agree with the objective underlying this recommendation. However, we believe that the most effective arrangement is to have the maintenance of quality as a prime responsibility of every line manager. We would be concerned about introducing any organizational arrangement that suggests to program managers that “someone else” is looking after quality issues. We will consider this issue further.

**A more disciplined approach to documentation would help provide more systematic information about quality to support management and reporting.**

## Conclusion

**3.98** In the course of our audit we noted Statistics Canada's commitment to producing high-quality statistics and continuing to improve quality. We noted, too, that the Agency is widely respected among its peers, and has an international reputation second to none for independence, innovation and quality. Indeed, many employees of other well-regarded statistical agencies whom we interviewed indicated that they were complimented that we would look to their agencies as benchmarks for Statistics Canada, when in fact they were striving to emulate it.

**3.99** Statistics Canada has in place a wide range of policies and processes to ensure the ongoing relevance of its programs, to build quality in through design, execution and the use of new technologies, and to maintain an environment that encourages a concern for quality throughout the organization. However, we found that its achievement of quality is not sufficiently assessed and reported either within or outside the Agency.

*Using a hand-held computer, with on-line interactive editing, to collect price information for the Consumer Price Index (see paragraph 3.99).*



**3.100** Its formal quality assessment mechanisms are not sufficiently co-ordinated and are not applied consistently. Program managers do not always comply with reporting requirements. As a result, these mechanisms do not provide systematic, transparent information about the adequacy of quality management systems and practices in the Agency's statistical programs or on the quality they actually achieve.

**3.101** However, the Agency's existing policies, guidelines and systems can become the basis for more effective quality assessment and reporting practices. Integrating them better and taking a more disciplined approach to documentation would improve the nature and extent of information available to support internal decision making and assurance, as well as external reporting to Parliament and the public on performance, and to users on data quality and methodology.

**3.102** The four self-assessments Statistics Canada carried out for this audit were well planned and executed. All reached positive conclusions about the adequacy of quality management in the four surveys. For three of the four (the Consumer Price Index, the Labour Force Survey, the Monthly Survey of Manufacturing), we concluded that the self-assessments provided reasonable assurance that quality management systems and practices are adequate. In our judgment, the evidence presented in the self-assessment of the Uniform Crime Reporting Survey could have led to a stronger conclusion about the weaknesses identified and the importance of recommended improvements.

**3.103** The quality of statistics figures prominently in Statistics Canada's effectiveness and in its commitments to Parliament for results. We therefore expected to find quality-related performance information in its most recent Performance Report to Parliament, tabled in October 1998. Overall, we

concluded that the Report provided only limited information on the Agency's performance with respect to the quality of the statistics that it produces.

**3.104** Because statistics have to be used in full awareness of their strengths and limitations, we assessed Statistics Canada's policy and practices for informing users about data quality and

methodology. We concluded that the Agency's Policy on Informing Users of Data Quality and Methodology is well structured and sets out clear expectations for program managers. However, the Agency's practices in informing users are inconsistent, and users are not always appropriately informed about the strengths and limitations of the statistics.



## About the Audit

### Objectives

Our audit objectives were to determine whether:

- Statistics Canada systematically assesses the adequacy of quality management systems and practices in its statistical programs to ensure that it has the information needed to manage and report on quality;
- Statistics Canada's self-assessments provide reasonable assurance about the adequacy of quality management systems and practices in the four selected surveys; and
- Statistics Canada appropriately informs users about data quality and the methodology used to develop the statistics.

### Scope and Approach

We examined various mechanisms used by the Agency to assess quality in individual statistical programs and to report results externally. We audited the Agency's self-assessments of four selected programs: the Consumer Price Index, the Labour Force Survey, the Monthly Survey of Manufacturing and the Uniform Crime Reporting Survey. We also reviewed the Agency's policy and practices for informing users about data quality and methodology, and reporting to Parliament on performance.

In addition to auditing Statistics Canada's self-assessments to determine whether we could rely on their conclusions, we reviewed documents and interviewed Agency staff. We also interviewed key users of statistics in the federal and provincial governments and the private sector. In addition, we compared the Agency's approach to managing the quality of statistics with practices in a number of respected statistical agencies in other countries – including Australia, the Netherlands, Sweden, the United Kingdom and the United States.

### Criteria

- The adequacy of quality systems and practices in individual statistical programs should be assessed systematically.
- Assessment findings should be used in managing quality and in reporting performance.
- Self-assessments should be properly planned and executed. Findings and conclusions should be supported by sufficient appropriate evidence.
- Self-assessments should cover the key principles and criteria reflected in the Agency's quality policies and guidelines.
- The Agency should have an effective policy on informing users about data quality and methodology to help ensure informed use of its statistical products.
- Individual statistical programs should appropriately inform users about data quality and methodology.

## **Audit Team**

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## Appendix A

# Approaches to Quality Assessment and Reporting in Selected Statistical Agencies

### United Kingdom's Office for National Statistics

The United Kingdom Office for National Statistics (ONS) has an internal review process through which quality practices of major business surveys are audited periodically. A member of the team from outside the ONS helps ensure that the review is objective.

For household surveys, data collection activities are subject to market testing. As part of the process, quality targets are clearly specified and the achievements by contractors (internal and external) are monitored. The surveys equivalent to the Labour Force Survey and the Consumer Price Index were two examples shown to us.

In addition, a separate internal audit process helps assure the quality of the systems that produce statistical outputs and identifies any general risks associated with them for corporate action.

In its annual Compliance Plan (submitted to Parliament), the ONS reports on changes in the response burden on businesses, by individual survey and in total. In the same document, planned and actual response rates for each survey are reported, providing some indication of data quality.

The ONS launched its StatBase in October 1998. It includes a meta-database in which users can find information about the data quality and methodology of each survey. This initiative, we understand, is based on Statistics Canada's Statistical Data Documentation System (SDDS).

### Statistics Sweden

In Statistics Sweden, each survey must complete an annual "quality declaration" based on a 24-item self-assessment checklist. The objective is to determine whether the quality of the survey has improved, deteriorated or remained the same, in each of four characteristics: content (relevance), accuracy, timeliness and coherence. Division management reviews the results of the self-assessments in its area of responsibility.

The results of these self-assessments are summarized for the agency's management. They are also included in the agency's annual report to Parliament. The Swedish National Audit Office audits the report and certifies the reliability of information on quality. Statistics Sweden's self-assessment procedure is currently being revised so as to complement it with continuous measurement of key process variables and specific quality indicators.

### Statistics Netherlands

Statistics Netherlands adopted an overall quality program in 1996. One of the objectives was to introduce quality systems in all statistical departments. Provisional guidelines were issued in 1997. At the same time, a system of "statistical auditing" was set up. The aim of this system is to check how quality management in statistical departments is functioning and how the quality of statistical products and processes (including the procedures) can be improved. Another objective is to document best practices and to incorporate them into the guidelines for quality management systems.

All audits are carried out by a pool of about 25 agency staff, drawn from various divisions and working part-time on statistical auditing. They receive training from a private consulting firm with experience in auditing and quality management.

## Appendix B

### Conclusions of Statistics Canada's Self-Assessments

*Except where we make specific comments, we concur with the following conclusions of the self-assessments.*

#### Consumer Price Index (CPI)

**Relevance.** “The CPI has continued to maintain a high degree of relevance in the context of Canada’s ever-changing economy, in spite of adverse budgetary conditions and the accompanying major reduction in the sample.

**Accuracy.** “The constraints imposed by budget reduction have led to sample reductions in the program. However, these reductions were implemented without compromising the accuracy of the most widely used measures.”

**Timeliness.** “The monthly measure of the CPI is produced in a timely fashion.”

**Accessibility.** “Current information on the CPI is freely and widely available.”

**Interpretability.** “The CPI program provides information on concepts and definitions and on issues of data quality through various channels, both through personal contact and through a series of publications designed to meet the needs of various users.”

*We agree with this statement. However, we noted that quarterly publications do not consistently refer the reader to sources where such information can be found.*

**Coherence.** “The conceptual framework and classifications used in the CPI reflect the needs of its clients.”

#### Labour Force Survey (LFS)

**Relevance.** “The LFS program has adequate measures to assure relevance, including use of advisory committees, direct client-stakeholder feedback, and careful monitoring and response to media coverage. The program incorporates this feedback through decennial redesign, ongoing quality assurance committees, and a committee to manage major developments between decennial redesigns.”

**Accuracy.** “The LFS is exemplary in terms of regularly monitoring the accuracy of data, primarily through the Data Quality Committee, which meets each month prior to the release of the survey results. A whole range of quality measures is monitored, including coefficients of variation, non-response, slippage, and coding error rates. Information products are reviewed in compliance with bureau policy.”

*Regional rates of unemployment are used, pursuant to the Employment Insurance Act, to determine the number of hours of work necessary to qualify for employment insurance benefits and the number of weeks of benefit. The LFS allocates its sample to achieve accuracy targets (coefficients of variation — CVs) for statistics on the unemployment rate in each Employment Insurance Region. The target CV, as established by a long-standing agreement between the Agency and Human Resources Development Canada (HRDC), is 15 percent. The Agency told us that occasionally the accuracy targets are not attained. When this happens, the Agency, in agreement with HRDC, may reallocate sample sizes to achieve the desired targets.*

*Our review shows that the LFS quality reports did not include the CVs for the unemployment rates in each region. The Agency informed us that in the future these accuracy measures will be formally reviewed in the LFS quality reports, and that HRDC, the user of the information, will be regularly informed.*

**Timeliness.** “...the LFS results are released in very timely fashion — two weeks after the end of the survey collection period.”

**Accessibility.** “Information on program outputs is widely available to users and the public through Statistics Canada’s Daily and the LFS release on the Statistics Canada’s world-wide web site, through copies of the publication available free of charge at Regional Offices and depository libraries, and via wide media coverage of the highlights of the survey results.”

*We agree with this conclusion, but note that users consulted by the Agency have indicated some concerns about accessibility, including the cost of accessing labour market information. During our audit, several users we interviewed also expressed concerns about the high cost of LFS products.*

**Interpretability.** “LFS products conform to the Policy on Informing Users of Data Quality and Methodology.”

*The review team told us that although individual products may not conform to the requirements of the Policy on Informing Users of Data Quality and Methodology, collectively they are in compliance because they make reference to other documents. With the December 1998 release of a publication on the methodology of the LFS, users now have access to a wide range of quality indicators (for example, vacancy rates, non-response rates, design effects, sample sizes, sampling errors)*

**Coherence.** “The LFS has taken adequate measures to ensure coherence, including use of international standards for definition of key labour market variables, such as unemployment, employment and the unemployment rate. The program also uses standard classification systems for industry, occupation and geography. To further ensure coherence, the LFS program undertakes, in concert with other program areas, analysis of LFS estimates with those from other sources.”

*We concur generally with the conclusion about coherence. However, two major users told us that the Agency could do more to improve the continuity of the LFS time series when technical changes, such as changes to classification systems, are introduced.*

*There have been questions about the international comparability of unemployment rates. Although most Western countries follow the International Labour Organization (ILO) guidelines in measuring unemployment, each country may build into its surveys special features for its own needs. For example, while both countries follow the ILO guidelines, Canada includes “passive job seekers” in the unemployed but the United States does not. It is important to take account of such measurement differences when comparing unemployment rates.*

*A discussion of this definitional difference and the resulting unemployment gap between the two countries was featured in the November 1998 issue of the Labour Force Update. LFS management told us that, in the future, key LFS publications would warn users of the dangers of international comparison of unemployment rates.*

## Monthly Survey of Manufacturing (MSM)

**Relevance.** “There is no evidence that the absence of a systematic, on-going external mechanism to ensure relevance is adversely affecting the MSM.” Nevertheless, the review team notes that “the MSM lacks a systematic communications link with its client community” and suggests a “more formal dialogue mechanism.”

**Accuracy.** “It is the judgement of the [review team] that, given its budget, the accuracy aspect of quality is very well managed in this survey.” The self-assessment goes on to state, “The survey produces estimates of high standard as judged by measures of quality that are observed...response rates are usually in the nineties which compares favorably to the best sample surveys.”

*Discussions with MSM staff confirmed that with the stratified sample used in this survey, a small number of data sources represent a very large proportion of the value of the measured variables. In these circumstances, a more useful indicator of data quality than response rate might be, for example, the coverage achieved in terms of the value of shipments.*

**Timeliness.** “It is the judgement of the [review team] that the MSM’s timeliness is acceptable and, while there should be a continual striving to improve it, it should not be at the expense of a deterioration in accuracy.”

*We have no reason to question the judgment of the review team in this regard. However, we note that the report provides no evidence to support conclusions about timeliness versus accuracy.*

**Accessibility.** "...the MSM information is readily available through Statistics Canada's Daily publication, in printed copy and through electronic media."

**Interpretability.** "The survey largely complies with the agency's Policy on Informing Users of Data Quality and Methodology."

*Despite this conclusion, the review team recommends the inclusion of a new "Concepts and Methods" section in the key publication that "more clearly explains the data quality issues" and that includes tables and graphs to "illustrate the size and impact of revisions". We agree with this recommendation.*

**Coherence.** "In the opinion of the [review team] the MSM does as good a job on the coherence dimension of quality as can reasonably be expected from a monthly survey."

## Uniform Crime Reporting Survey (UCR).

**Relevance.** "The UCR program has in place a superior means for both client and respondent liaison, consultation and feedback to ensure the relevance of its data and products."

*The review team goes on to recommend, "The establishment of an advisory committee on analytical studies and requirements be considered to enhance the perception of independence of the UCR and to broaden the scope and extent of data use." We agree with this recommendation.*

**Accuracy.** "The data are at most as good as the information available within the policing system itself...effective monitoring and assessment of quality needs an examination of data at the level of police forces. This is done in part through the editing process. Some of the primary checks and analysis at this level are performed by the respondents themselves, who "sign off" on the results. (But this process) does not necessarily assure accuracy and it does not permit an independent assessment of accuracy. It does not account for differences in reporting and enforcement practices."

*In 1997 Statistics Canada distributed a self-audit manual to police forces across the country. This initiative was based on the recommendation of a 1989 study, which found that police forces needed to conduct periodic audits of their internal systems to ensure accurate reporting of crime statistics. The Agency's follow-up with a number of major police forces showed that the forces did not have the resources to conduct the audits. In the meantime, there is continuing uncertainty about the quality of the information that is available within the policing system and reported to Statistics Canada. We were told that an internal proposal has recently been submitted within the Agency, requesting resources to perform a data quality audit with selected major police forces.*

**Timeliness.** "Given the nature of the survey, there is strong support for concluding that the data are as timely as is reasonable to expect under the current operational constraints...Any significant improvement in timeliness would have to come in respondent related activities."

**Accessibility.** "The practices used to disseminate and ensure accessibility of UCR data are consistent with Agency practices in general, and with requirements and views of major clients."

**Interpretability.** "In all cases (including the releases in the Daily), information on the concepts and definitions is given and amply meets the requirements and the intent of the Policy on Informing Users of Data Quality and Methodology..."

*With respect to information on data quality (as distinct from information on concepts and definitions), the review team makes three recommendations for improvement. 1) "An assessment of the impact of the coverage limitations of the UCR2 might be helpful (for example, by examination of aggregate data differences between the UCR1 and UCR2 populations). 2) Cross-references in all products to the report "Canadian Crime Statistics" ... for details on methodology and data quality would also be useful ... 3) Response rates and an assessment of the effect of imputation by major variable should be provided." In view of the nature of this survey, we agree with these recommendations and believe them to be important.*

**Coherence.** "There are clear and convincing attempts to provide a broad picture of criminal incidents, victims and perpetrators - integration of aggregate data across the surveys within the Police Services Program, integration of data from a variety of statistical sources (including some international data) and development across statistical programs."



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- 8 The Atlantic Groundfish Strategy: Follow-up
- 9 Management of Science and Technology Personnel: Follow-up
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**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 4**  
**Fisheries and Oceans –**  
**Managing Atlantic Shellfish in a Sustainable Manner**

**April 1999**



**Report of the  
Auditor General  
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**Chapter 4**  
Fisheries and Oceans –  
Managing Atlantic Shellfish in a Sustainable Manner



**April 1999**

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# Chapter 4

## Fisheries and Oceans

Managing Atlantic Shellfish in a  
Sustainable Manner

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

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## Fisheries and Oceans

### Managing Atlantic Shellfish in a Sustainable Manner

#### Main Points

**4.1** In October 1997, we reported on problems associated with the Department's management of the Atlantic groundfish fisheries. In the current audit, we found that many of these problems also exist in the Department's management of the Atlantic shellfish fisheries. For example, we noted increases in harvesting capacity and the encouragement of increased fisher participation through open access licensing in the shellfish fisheries. In addition, we found weaknesses in the information used in making resource decisions, and gaps in monitoring, control and surveillance. The full impact of these problems is not obvious, as most shellfish fisheries are currently recording high landed values. However, in our view these are significant concerns that must be addressed to ensure that the shellfish fisheries are managed in a sustainable manner.

**4.2** The Department's decisions have a profound impact on those engaged in the fishing industry and the communities that rely on the income generated from the industry. The absence of a fisheries policy that fully reflects sustainability concepts means that decisions are made on an ad hoc and inconsistent basis rather than as part of an overall framework for achieving a sustainable fishery. An open and transparent process in which clearly articulated and consistently applied principles guide decision making would provide all stakeholders with assurance that their interests are considered and that the resource is protected over the long term.

**4.3** We observed resource use decisions that are not consistent with the Department's currently stated objectives for fisheries management. As we reported in October 1997, there is a need to have the government clarify fisheries objectives in legislation. The Department needs to move forward with the development of a sustainable fisheries framework that incorporates the interdependent factors — biological, economic and social — that affect the fishery.

#### Background and other observations

**4.4** In the 1990s, Atlantic Canada saw a virtual collapse of its commercial groundfish fishery (cod, haddock, pollock, halibut and various flatfish). In the same period, however, there was a general rise in the value of shellfish landings (lobster, scallop, snow crab and shrimp). In 1997, the landed value of all shellfish in Atlantic Canada was \$920 million, which represented 81 percent of the landed value of all fish landed in the region.

**4.5** The Department has stated in its key parliamentary accountability documents that its objective is conservation, or protecting the productive capacity of the natural resource that supports the fishery. It has also reported that it has an economic objective, but the expected results for this objective are not stated. The Department has indicated that it is not responsible or accountable for social outcomes. We found that most resource use decisions in the shellfish fisheries are heavily influenced by social and economic factors.

**4.6** The Department's "Fishery of the Future" strategy reflects objectives that include ensuring economically viable and self-reliant fisheries, over time. However, these objectives are not fully reflected in the Department's reporting to Parliament. We found resource use decisions in the shellfish fisheries that are inconsistent with the concept of an economically viable industry.

**4.7** Co-management, designed to increase industry's role, responsibility and accountability in fisheries management, is an important aspect of the Department's Fishery of the Future strategy. Participants assuming greater responsibility for their industry is an important element of sustainability. However, very little power sharing has actually occurred. In our opinion, there are weaknesses in the Department's current approach to co-management.

**4.8** The Department has recognized that there are weaknesses in the fisheries management framework in the existing *Fisheries Act*. However, amendments to deal with these weaknesses have not yet been re-introduced in the House of Commons.

**Fisheries and Oceans' responses to our recommendations are included in this chapter. The Department either agrees to take action or notes that initiatives are under way to address three of our four recommendations. The Department has not indicated an intention to take action at this time on our recommendation that addresses co-management.**

## Introduction

### The rise in importance of shellfish

**4.9** In the 1990s, Atlantic Canada saw a virtual collapse of its commercial groundfish fishery. In the same period, however, the region's commercial shellfish fisheries showed a general rise in the value of the catch.

**4.10** In fact, shellfish landings from 1984 to 1997 rose in weight by 138 percent — from 131,000 to 312,000 tonnes. Since the early 1990s, landings have declined for lobster and scallops, but have significantly increased for snow crab and shrimp, primarily in Newfoundland and Labrador.

**4.11** At the same time, the rising demand for shellfish increased the prices received by fishers. Declines in the groundfish fishery notwithstanding, the landed value of all Atlantic Canadian fish reached \$1.34 billion in 1995. When adjusted for the impact of inflation, this represented the second-highest annual landed value ever in the region. Exhibit 4.1 illustrates the trends in Atlantic landings and prices for the four major commercial shellfish species.

### The changing nature of the fishery and its impact on people

**4.12** Our October 1997 Report Chapter 14 discussed the dramatic impacts on Atlantic Canada following the collapse of most of its commercial groundfish fisheries. The labour-intensive nature of the fishery meant that its collapse affected large numbers of people in both the harvesting and the processing sectors.

**4.13** During the 1990s, there has been an unprecedented increase in incomes of most fishers involved in the shellfish sector. While generally providing good returns to fishers, historically this sector, with the exception of the lobster fishery, has not supported a large number of

people. Nor does the shellfish sector require the same level of processing as groundfish, so it does not support as many plant workers.

**4.14** The incomes of fishers in the shellfish sector have provided a stark contrast to those of fishers who depended on groundfish for a living. The 1990s saw a variety of government programs designed to provide groundfish fishers with income support and opportunities for other employment, and they have become dependent in large part on these programs for a substantial portion of their income. In the end, the programs will have cost Canadian taxpayers over \$3 billion.

### Focus of the audit

**4.15** This chapter reports on the management of major Atlantic shellfish fisheries by Fisheries and Oceans. We also report on the Department's progress toward developing and implementing a management framework for sustainable fisheries, especially shellfish fisheries. The chapter assesses whether the Department has managed the shellfish fisheries in a way that contributes to meeting its own stated objectives for fisheries management.

**4.16** Our audit took a case approach. That is, we selected individual fisheries to determine whether and to what extent the objectives for fisheries management were pursued consistently.

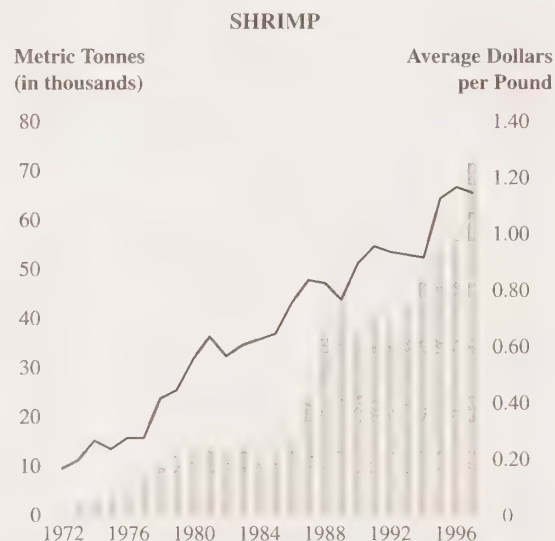
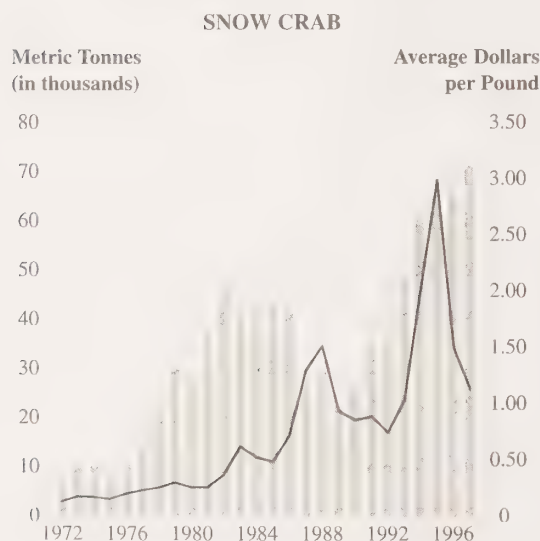
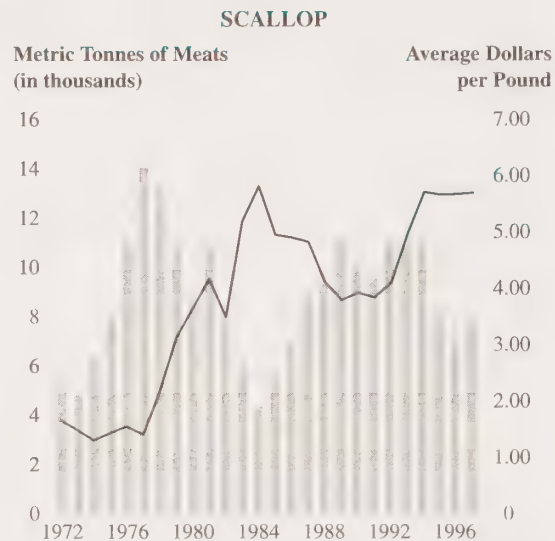
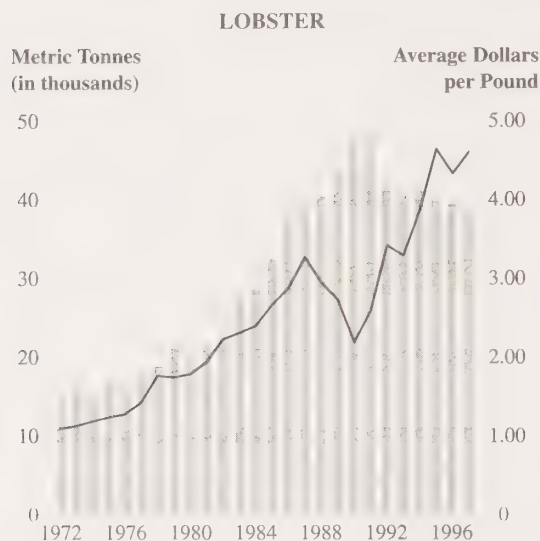
**4.17** The cases selected for audit were in the lobster, scallop, snow crab and shrimp fisheries. In 1997 these fisheries represented 92 percent of the value of shellfish landed in Atlantic Canada; shellfish in total represented 81 percent of the value of all fish landings in the region. Exhibit 4.2 shows the specific areas in these four fisheries that we included in our audit. We selected the fisheries that not only have the highest value but also include all of the major fishing areas of Atlantic Canada.

**In 1997 shellfish represented 81 percent of the value of all landings in Atlantic Canada.**

Exhibit 4.1

Trends in Landings and Prices for Lobster, Scallop,  
Snow Crab and Shrimp – Atlantic Canada

Landings Price



Source: Fisheries and Oceans Canada

**4.18** Further details are provided in **About the Audit** at the end of the chapter.

## Observations and Recommendations

### Fisheries Management Framework

#### The powers of the Minister of Fisheries and Oceans

**4.19** The *Fisheries Act* provides extensive powers to the Minister of Fisheries and Oceans. For the fisheries within the jurisdiction of the federal government, the Minister has the power to decide who fishes (by issuing fishing licences), how much fish can be harvested (by allocating quotas), the fishing methods to be used, the timing of the fishing season and many other aspects of fishing activity.

#### The responsibilities of the Department of Fisheries and Oceans

**4.20** In its 1998–99 Part III Estimates (Report on Plans and Priorities), the Department stated that the overall departmental objectives include, among other things, undertaking policies and programs in support of Canada’s economic, ecological and scientific interests in the oceans and inland waters and providing for the conservation, development and sustainable economic utilization of Canada’s fisheries resources for those who derive their livelihood or benefit from these resources. The specific objective of fisheries management is:

...[to ensure] the conservation and protection of Canada’s fishery resource and, in partnership with stakeholders, to assure its sustainable utilization.

In its key accountability documents, the Department has informed Parliament that its objective for fisheries management is “conservation”. At the beginning of our audit, the Department informed us that

“conservation” as used here means the biological aspects of sustainability; it does not include broader economic or social issues. In the 1998–99 Report on Plans and Priorities, none of the expected results for fisheries management refer to the Department’s overall economic objectives.

#### Defining fisheries management objectives

**4.21** Since Program Review in 1994, the Department has been pursuing the “Fishery of the Future” strategy, to make fisheries:

- economically and environmentally sustainable;
- stable and capable of providing adequate levels of income; and
- self-reliant, competitive and viable without subsidization.

These objectives are not fully reflected in the Department’s 1998–99 Report on Plans and Priorities, although the document refers to the Fishery of the Future strategy.

**4.22** Moreover, neither the Department’s reports to Parliament nor its Fishery of the Future strategy reflect any consideration of the social implications of fishery management decisions. In a 26 August 1998 response to the Standing

**The Minister has extensive powers.**

Exhibit 4.2

#### Shellfish Stocks Included in Our Audit

| Stocks    | Fishing Areas   |
|-----------|---|
| Lobster   | <ul style="list-style-type: none"><li>• Southwest Nova Scotia</li><li>• Southern Gulf of St. Lawrence</li></ul>                     |
| Scallop   | <ul style="list-style-type: none"><li>• Offshore Nova Scotia</li><li>• Bay of Fundy</li></ul>                                       |
| Snow Crab | <ul style="list-style-type: none"><li>• Newfoundland</li><li>• Gulf of St. Lawrence (except for Laurentian inshore areas)</li></ul> |
| Shrimp    | <ul style="list-style-type: none"><li>• Northern shrimp</li><li>• Gulf of St. Lawrence</li></ul>                                    |

**For certain decisions,  
the Department has  
not adhered to its  
Fishery of the Future  
strategy.**

Committee on Public Accounts, the Department confirmed that it does not support consideration of social factors :

A reversal of current fisheries management policy principles and a return to a social fishery to accommodate former TAGS (The Atlantic Groundfish Strategy) recipients would result in an increased conservation risk, decreased industry viability and greater costs to government in the long run in the form of higher management costs and greater access to EI (Employment Insurance).

**4.23** However, in certain important decisions the Department has not adhered to the Fishery of the Future strategy, which represents its vision for the fishery. For example, Exhibit 4.3 describes three allocation decisions made to support social objectives that are not reflected in the strategy.

**4.24** Another example of the Department's pursuit of social objectives is in the Northern shrimp and Gulf snow crab fisheries. In 1997 and (for Northern shrimp only) in 1998, temporary allocations were approved for fishers'

organizations and community-based organizations, either directly or to companies controlled by them. The purpose of these temporary allocations was to strengthen or support initiatives by the organizations and to redistribute income from these lucrative fisheries to the organizations' members. We estimate that the total landed value of these temporary allocations was approximately \$15 million.

**4.25** We found that prominent themes in the management of certain shellfish fisheries have been the distribution of wealth and the sharing of benefits between the fishers pursuing "successful" fisheries and other licensed fishers, including those dependent on groundfish. In other lucrative shellfish fisheries, however, no attempt has been made to engineer a sharing of the fishery's wealth.

**4.26** The *Fisheries Act* provides the Minister and the Department with the dual roles of protecting the productive capacity of the natural resources that support fisheries and allocating the resource to those licensed to fish. In its reporting to Parliament, to the media and to the general public, the Department

**Exhibit 4.3**

**Three Resource Allocation  
Decisions Reflecting Social  
Objectives**

- The 1997 inshore allocation in shrimp fishing area 5, intended to be fished by inshore vessels under 65 feet, was allocated to several community-based Labrador corporations. These corporations, in turn, chartered or sold the allocations to the existing offshore licence holders, who in some cases made further chartering arrangements. The same practice occurred in 1998.
- In 1997 and 1998, an allocation of 3,000 tonnes of shrimp in shrimp fishing area 6 was granted to a community-based corporation that had the goal of developing a shrimp processing facility on the Northern Peninsula of Newfoundland. In both years, the corporation contracted with others to fish and process the allocation.
- Fisheries and Oceans defines an exploratory fishery as one where it is attempting to determine whether a stock can sustain a commercially viable operation, and to collect biological data for information on stock abundance and distribution. In 1995, the Minister authorized the establishment of two exploratory snow crab fishing zones in the Gulf of St. Lawrence area, to be fished by groundfish-dependent fishers who did not hold snow crab licences. This fishery was established as part of a strategy to "meet the demands for more equitable sharing of the snow crab resource in areas where it continued to be abundant". In 1997, the Department reported to the Minister that these two zones no longer met the requirements for an exploratory fishery, as scientists had concluded that the zones had no resident stocks. The snow crab in the zones was, in fact, migrating from the adjacent snow crab fishing area 12. The Department recommended that the exploratory fishery in these zones be closed. The Minister chose to keep the zones open in 1998. While this fishery was approved as an "exploratory" fishery, fishers have never been required to complete the normal scientific protocols expected in such fisheries.

emphasizes the first role, protection. In practice, the day-to-day activities of fisheries managers deal for the most part with the second role, allocating the resource. The result of the Minister's allocation decisions is the distribution of wealth from the fisheries.

**4.27** There is a natural tension between the roles of protecting resources for future use and allocating resources for current use. Social and economic pressures on the Department and the Minister will generally be to allocate resources for current use. These pressures are hardest to manage when the Department has limited knowledge to prove how much of the stock must be left unharvested to protect the resource. When knowledge about stocks is limited, it is particularly important that the precautionary approach be applied — that is, erring on the side of caution.

**Policies governing the fishery are not always clear**

**4.28** Resource allocation and licensing decisions have important economic and social consequences. The *Fisheries Act* gives the Minister of Fisheries and Oceans absolute discretion to make such decisions. Historically, in making these decisions, the Minister and the Department in support of the Minister have considered a number of factors, including those of a social and economic nature. Examples of these factors include fishers' adjacency to the resource, historical attachment to the stock and historical provincial share. In December 1995, the Department adopted the Commercial Fisheries Licensing Policy for Eastern Canada (1996), which set out its revised position on issuing licences. This Policy makes reference to a number of factors, including those mentioned above, but it does not clearly establish how these factors are to be reflected in practice. The Policy allows for exceptions based on geographic and economic circumstances, which are not specified.

**4.29** The difficulties of applying this Policy in practice can be demonstrated by the following examples:

- The Gulf shrimp fishery has historically been fished by Quebec, New Brunswick and Newfoundland fishers. In 1998, the Minister approved the allocation of 150 tonnes of Gulf shrimp to Nova Scotia and Prince Edward Island fishers. This temporary arrangement alters the historical provincial share of this stock.

- The union representing crews on offshore scallop vessels requested that the Minister grant it a percentage of the offshore scallop quota. In an internal review, the Department indicated that the request for the allocation could not be granted independent of a licence, meaning that a new offshore scallop licence would have to be issued to the union. This, in essence, would mean abandoning or providing an exception to the limited entry policy that had been in effect for the offshore scallop fishery since 1973. The allocation has not been granted to the union. In contrast to this position, however, Gulf snow crab with an estimated landed value of \$5 million was allocated in 1997 to companies set up and controlled by fishers' organizations, including unions. These companies were issued new licences to fish snow crab. Moreover, in the Northern shrimp fishery the Minister allocated 2,000 tonnes of shrimp to the union representing Newfoundland fishers and to a fishers' co-operative, even though they were not licence holders. This allocation was fished through arrangements with existing offshore licence holders.

**4.30** A recent review conducted on behalf of the Department's Review Directorate observed that there is a "two-track" approach to resource allocation. The first track is based on Integrated Fisheries Management Plans, which departmental officials and the industry develop together to determine how the fishery should be managed. The second track is outside that process:

**There is a natural tension between protecting resources for future use and allocating resources for current use.**

industry groups or others address their concerns directly to the Minister either before the formal process or concurrently with it. We noted the latter approach in the allocation decision for the Northern shrimp fishery (see Exhibit 4.4). We observed that the same approach was also used in the consultations on changes to harvesting practices for Gulf lobster. While we understand that the Minister has absolute discretion in this area, we are concerned that the absence of transparency in fisheries management decisions has the potential to undermine a long-term perspective on sustainability of the resource.

#### **What does the Department mean by an economically viable fishery?**

**4.31** The Department's Fishery of the Future strategy calls for an industry that is economically viable, over time. In general, economic viability means that those engaged in an activity receive sufficient returns to stay in business and enjoy a "reasonable" living without subsidies from government. The Department has not elaborated on what it intends to achieve when it calls for an industry that is "economically viable, over time".

**4.32** We observed resource allocation and licensing decisions that did not appear to be consistent with the objective of economic viability. For example:

- As little as one tonne of snow crab was allocated to inshore Newfoundland

fishers. In this instance, the apparent goal was to maximize employment at marginal incomes rather than to achieve economic viability. The case study on page 4-13 describes the impact of management decisions on the economic viability of the Newfoundland snow crab fishery.

- In the Northern shrimp fishery, the Department's actions have encouraged increased harvesting capacity in the industry even though there is uncertainty about how long the recent increases in this stock will last (see the case study on page 4-14).

#### **The role of government in controlling industry's harvesting capacity**

**4.33** The Food and Agriculture Organization of the United Nations has reported that a common problem in fisheries around the world is overcapacity, as fishers invest in larger or more efficient vessels and equipment. When they see that overcapacity has become a serious problem, governments can do one of three things. They can recognize the risk to the stocks and provide financial incentives to reduce capacity; this has been a favoured approach in Canada, although often only after major stock declines, as happened in the Atlantic groundfish and Pacific salmon fisheries. They can allow overcapacity to go unchecked, which then puts a strain on the resource. Or they can encourage industry self-rationalization through management regimes such as enterprise allocations or individual transferable quotas. In all cases, people who rely on the resource usually look to government

#### **Exhibit 4.4**

##### **A "Two-Track" Allocation Approach – Northern Shrimp**

In 1996, the Minister sought industry views and proposals on how to share increases in Northern shrimp quotas for 1997 and beyond. The results of the formal consultative process with industry were presented to the Minister on 11 April 1997 in a memorandum from the Deputy Minister. The Minister was asked to approve a formula for sharing of the increased quotas between the existing offshore licence holders and potential new entrants. This proposal was not accepted by the Minister. The Minister ultimately accepted a proposal put forward by his staff, the union representing the potential new entrants and the Department's Newfoundland Region. This new proposal recommended that all of the increase in quotas be given to new entrants and selected offshore licence holders, based on the adjacency principle. This proposal's definition of adjacency to the resource resulted in almost exclusive access by Newfoundland inshore fishers to the substantially increased quota in 1997 and 1998.

for assistance until the resource recovers, or until it becomes clear that the resource will not recover. A recent example was the income support program for those who were dependent on Atlantic groundfish stocks.

**4.34** Since 1992 the Department has made efforts through licensing policy initiatives and expenditures to reduce the harvesting capacity of the groundfish sector. The Department has spent approximately \$85 million to eliminate over 1,300 groundfish licences. The vast

majority of the licences retired were in the Newfoundland Region. Nevertheless, as noted in our October 1997 Report Chapter 15, excess harvesting capacity continues to be a concern.

**4.35** Since 1997 the harvesting capacity in the Newfoundland Region has increased dramatically. The increase has come in the form of 208 new shrimp trawlers (see the case study on page 4-14) and 150 vessels enlarged or replaced under Supplementary Vessel Replacement Rules for the purpose of fishing snow

### Newfoundland Snow Crab Fishery – Effect of Open Access on Economic Viability

In recent years, the number of individuals in the Newfoundland snow crab fishery has significantly increased. Prior to 1995, this fishery was conducted by 822 licensed fishers (see chart). In 1997, the Minister opened the snow crab fishery to all Newfoundland core fishers through the issuance of “temporary” licences. There are now 3,182 licensed snow crab fishers. The new temporary fishers are predominantly from the small boat inshore fishing fleet, with vessels less than 35 feet. This group was particularly affected by the closure of the groundfish fishery.

Large numbers of the new entrants have been granted very small quotas that produced low income per individual. In 1997, individual quotas for the temporary inshore fishers were as low as 1 tonne, providing about \$2,000 in revenue, and averaged 2.7 tonnes, providing about \$5,400 in revenue. Although the Minister originally approved a minimum quota of 3 tonnes per individual to ensure a minimum level of economic viability for new entrants, he subsequently reduced the minimum quota to 1.8 tonnes. This change was made after industry made representations that open access be allowed. The Department further lowered the minimum to 1 tonne in order to accommodate all fishers. Departmental data on landings indicate that the new entrants rely on this fishery as a primary source of fisheries income.

The traditional snow crab fishers have been required to vacate inshore zones to accommodate the temporary entrants. They must now fish in areas ranging from 50 to 200 miles offshore. This displacement has increased their operating costs. So they would accept the

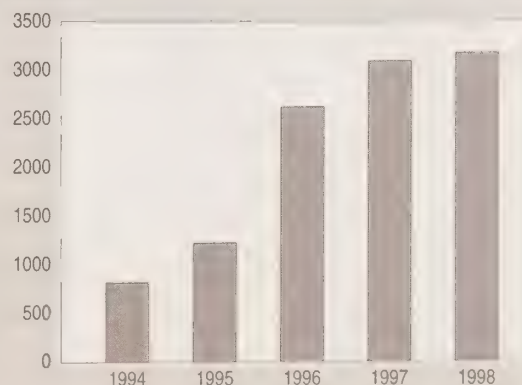
displacement, the Department provided the traditional fishers with additional quota to offset their increased operating costs. In some of these new areas, there is uncertainty about stock status and the long-term viability of the snow crab resource.

In 1998, the total allowable catch was increased by 9.5 percent above the 1997 level to accommodate the temporary inshore fishers. The increase was contrary to the two-year management plan, which committed to no increases in quota unless substantial changes in stock status occurred. The Department's Science Branch had initially indicated that there was no basis for suggesting a change to the management plan for 1998. In 1998, no formal Stock Status Report was produced for Newfoundland snow crab.

**Our concerns.** We recognize the pressures under which the Department must operate, especially in Newfoundland where chronic unemployment is a societal challenge. However, we are concerned that open access to the Newfoundland snow crab fishery has led to the entry of large numbers of fishers who are receiving marginal incomes at a time when this fishery is at historically high levels. The management of this fishery demonstrates the Department's difficulty in balancing competing biological, social and economic factors.

NEWFOUNDLAND SNOW CRAB LICENSES

Licences



Source: Fisheries and Oceans

crab. Approximately 50 of the 150 vessels were under 35 feet long and have been replaced with vessels between 35 and 45 feet.

**4.36** It is difficult for government to define and determine the harvesting capacity of industry, let alone control it. For example, the new and the enlarged vessels have a large potential harvesting capacity, which could be readily

redirected to harvest groundfish. We are concerned that this increase in potential harvesting capacity may offset the government's previous efforts to reduce capacity in the groundfish fishery. The Department has indicated that it has the means to control the transfer of capacity from the shellfish to the groundfish fishery. However, past experience has shown that government comes under

## Northern Shrimp Fishery – Encouraging Growth in Harvesting Capacity Without Long-Term Knowledge

In the past two years, the Northern shrimp fishery in the Newfoundland Region has grown significantly (see chart).

**Science advice.** In the 1997 Stock Status Report for Northern shrimp, the Science Branch concluded that the stock was at an unprecedented level and was widely distributed. In 1998, advice provided from outside the formal stock status process indicated that the current exploitation level is low and does not immediately jeopardize the stock. However, the Science Branch also noted that this current high abundance might be a pulse, and that future rapid declines in biomass can be expected. Furthermore, the Science Branch could provide assurances about the stock for only two to three years. As noted in paragraph 4.61 of the chapter, the Science Branch did not consider the doubling of the 1998 total allowable catch in shrimp fishing area 6 to be precautionary.

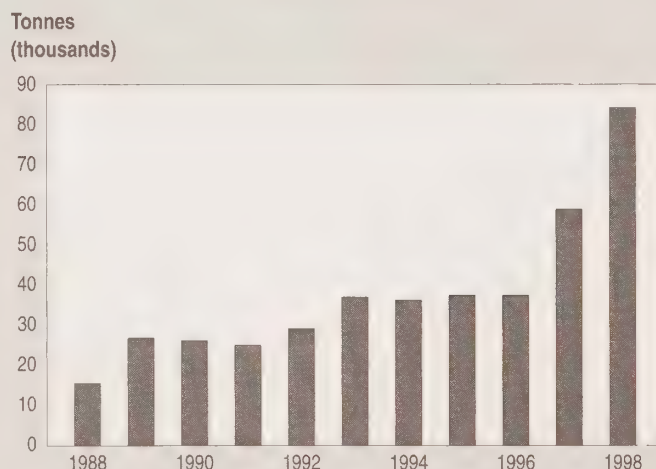
**The response of fisheries management to the stock increase.** The total allowable catch for area 6 was doubled in 1997 and again in 1998 for a total increase of 318 percent since 1996 (from 11,050 tonnes to 46,200 tonnes). Open access to this fishery was provided by the Minister to all Newfoundland core fishers through the issuance of temporary shrimp licences in 1997 and 1998. A condition of these temporary licences was that each fisher was required to use his or her own vessel. As a consequence of this open access management regime, the number of participants increased significantly. For example, prior to 1997 there were 17 licence holders fishing Northern shrimp in area 6, with a total allowable catch of 11,050 tonnes. In 1998 there were an additional 300 licence holders in area 6 with an additional total allowable catch of 35,000 tonnes.

**Fleet capitalization.** In response to the increased total allowable catch, the open access fisheries management regime, and the requirement for all participants to be equipped to harvest shrimp in order to gain access, industry invested heavily in this new fishery. Specifically, 208 of the new licencees have invested in new shrimp trawling gear. The Department estimates that the average cost of new trawler gear is \$150,000 per vessel or a total gear-up cost of about \$30 million since 1997. Although the value of the shrimp landings by these new shrimp trawlers was about \$26 million in 1998, the reliability of this revenue over time is not known given the scientific uncertainties.

**Capacity growth.** Fleet capitalization has led to a significant increase in harvesting capacity in the Newfoundland Region. With minor modifications, the 208 new shrimp trawlers can also be used to harvest other species such as groundfish. Onshore processing has also significantly increased since 1996.

**Our concerns.** The Department has encouraged significant growth in harvesting capacity while the expectations are that the size of the shrimp stock will decline rapidly at some point in the future. We are also concerned that the size of the trawler fleet in Newfoundland has increased significantly at a time when the government has taken action, through a series of licence retirement programs, to reduce overall harvesting capacity in Atlantic fisheries.

NORTHERN SHRIMP QUOTA



Source: Fisheries and Oceans

intense pressure to allocate stocks to meet capacity needs.

**4.37** We observed that harvesting capacity has also increased in the lobster fishery, due mainly to improved efficiency of fishing gear, larger and more powerful boats, and improved fishing technology. This was one of the main reasons behind the Minister's recent plan for additional controls over harvesting in this fishery. Conversely, in the offshore and Bay of Fundy scallop fisheries, the Department has used enterprise allocations and individual transferable quotas respectively to enable licence holders to reduce capacity in line with availability of the resource. The number of vessels in the offshore scallop fishery was reduced from 66 in 1985 to 32 in 1996. The fleet sector that harvests 85 percent of the Bay of Fundy scallops in the inshore only recently adopted a self-rationalizing system and it is too early to determine the results of this new approach.

#### **Departmental action to develop a fisheries management framework**

**4.38** Our October 1997 Report Chapter 14 dealt with the management of the Atlantic groundfish fishery. We believe that the observations and recommendations we made then are relevant to the management of any fishery. We recommended that Fisheries and Oceans:

- renew its efforts to have the government clarify fisheries objectives in legislation and develop a national fisheries policy framework;
- pursue, as a priority, completion of a consolidated policy framework related to sustaining the fisheries resource base; and
- establish measurable indicators and performance expectations to assess progress in applying guiding principles, and integrate those indicators in its planning, reporting and accountability process.

**4.39** The Department responded that it would take action on our recommendations by seeking amendments to the *Fisheries Act*, preparing a framework to elaborate on its policy objectives and principles, and developing performance measures and business plans.

**4.40** On 26 August 1998, the Department provided the Standing Committee on Public Accounts with updates and action plans for implementing our recommendations. On the development of a fisheries management framework the Department stated, among other things, the following:

- Since Program Review, it had pursued two interdependent and complementary objectives: the Fishery of the Future strategy — industry restructuring aimed at producing a sector that is economically and environmentally sustainable and self-reliant; and management renewal — aimed at refocussing the Department on its primary mandate of conservation and sustained use of the resource. Concurrent with budget reductions, this would also mean devolving to fish harvesters a greater decision-making role and cost responsibility in resource conservation and management.
- The Department would explore ways and means of changing the existing policy framework by December 1998 to be more consistent with the objectives of the Fishery of the Future strategy.

- As the Department had not been assigned the responsibility or the resources for managing the social and economic outcomes, it would not be developing related performance measures. Specifically, it said:

On the measure of balancing industry capacity to establish an economically and socially viable industry, it was viewed that the mandate of the Department was revised in the Program Review exercise to focus on the core business of conservation, and

**The Department has indicated that it does not have the responsibility or resources to manage social and economic outcomes.**

that we have not been assigned either the responsibility or the resources to manage the socio-economic outcomes. As a consequence, at the “Outcome” level, fisheries management will not measure or target performance in this area. The only exception to this rule is in situations where the Government has conferred upon the Department special responsibilities. In these cases, socio-economic outcome performance indicators would be developed as appropriate.

- The Department was committed to developing a performance measurement framework for fisheries management, to include updating the framework in the Multi-Year Strategic Plan. Measures that focussed on outcomes were to be established and implemented by December 1998.

In our view, the Department’s position in this response to the Committee is inconsistent. The Department states that it has an objective of producing a sector that is “economically... sustainable and self-reliant”. Yet, at the same time, it says it does not have the “responsibility or resources to manage the socio-economic outcomes.”

**4.41** At 31 December 1998, the status of initiatives taken in response to our recommendations was as follows:

- **Amendments to the *Fisheries Act*.** These have yet to be tabled in the House of Commons. In late 1998, the Minister established a Panel to examine the key issue of partnering arrangements — an issue that underlies a number of the proposed amendments. The Panel reported on 10 December 1998 and “urged the Minister of Fisheries and Oceans not to go forward at this stage with legislation for partnering”, largely due to widespread opposition to the concept.
- **Sustainable fisheries policy framework.** In October 1998, departmental officials conducted a

strategic planning workshop. Updated draft vision and mission statements were produced and objectives and strategies to achieve the updated mission were determined. Senior management proposed objectives that clarified the meaning of industry viability, the intent of fisheries management and the social dimensions of the Department’s responsibilities. As a result of this exercise, departmental officials have determined that social and economic considerations do have a role in fishery decisions. We recognize the Department’s efforts to clarify what it is trying to achieve through its fisheries management activities; yet these initial efforts need to be formally approved and incorporated into its key accountability documents.

- **Development of a performance measurement framework.** The Department has deferred this work pending formal adoption of the fisheries policy framework.

### **Sustainable fisheries framework**

**4.42** A sustainable fisheries framework is the sum of the legislation, policies and principles that establish what society wants to achieve from the fishery; it also guides the conduct and management of the fishery over the long term. That is, having first determined what society is trying to achieve through the fishery, the Department should be able to establish the most cost-effective means of achieving it in a sustainable way. In this context, we have assumed a definition of “sustainable fishery” that is consistent with the definition of “sustainable development” in the *Auditor General Act*:

“sustainable development” means development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

**4.43** A sustainable fisheries framework takes into consideration the interdependent factors — biological, economic and social — that affect the

fishery. Thus, it is by nature complex, multi-dimensional and constantly evolving. In the Appendix, we report on the “lessons learned” from our review of fisheries frameworks in other jurisdictions and from the Atlantic Canada experience.

## Summary

**4.44** Sustainable fisheries require that interdependent biological, social and economic factors be considered from a long-term perspective. In addition to its “conservation” role, the Department has indicated that it is pursuing economic objectives for the fishery. However, the expected outcomes of pursuing this economic objective have not been identified. We have also noted that the Department is making decisions that support unspecified social objectives. The absence of a formal fisheries policy that fully reflects sustainability concepts means that decisions on resource use are made on an ad hoc and inconsistent basis rather than as part of an overall framework for achieving a sustainable fishery.

**4.45** The Department of Fisheries and Oceans (DFO) should move forward with the development of a sustainable fisheries framework, including efforts to have the government clarify fisheries objectives in legislation. The framework should guide the conduct and management of the fishery over the long term.

*Department’s response: DFO has recently established a Working Group on the Reform of the Atlantic Fisheries Policy, under the responsibility of the Assistant Deputy Minister Fisheries Management and Assistant Deputy Minister Policy. Part of the mandate of this group will be to deal with the creation of a cohesive and consistent policy framework providing a broad vision of the direction of future fisheries in the Atlantic.*

## Implementing “Conservation” in the Shellfish Fisheries

### What does “conservation” mean to the Department?

**4.46** As we have noted (paragraph 4.40), since Program Review the Department has focussed on its core business of “conservation” of Canada’s fishery resource. How does the Department know when it has “conserved” fishery resources? Does it know what a healthy stock is? “Conservation” could have a number of possible objectives, such as increasing the overall size of the stock, maintaining the status quo or increasing the size of the stock available to spawn.

**4.47** Each of the fisheries we examined had a planning process. All fisheries management plans that we examined included “conservation” as an objective, but only the objective for the lobster fishery was quantified. (We noted that the Department views the objective for the lobster fishery as an interim step while it develops better measures of “conservation”). Examples of objectives stated in the fisheries management plans included the following:

- to double eggs per recruit over a two- to four-year period (Atlantic lobster);
- to implement management measures that will protect and conserve snow crab resources (Newfoundland snow crab);
- to promote and ensure the conservation and protection of the snow crab resource (Gulf snow crab areas);
- to ensure the conservation and restoration of the resource (offshore scallops);
- to make conservation of the resource paramount (Northern shrimp); and
- to protect small scallops (juveniles) from recruitment and growth overfishing (Bay of Fundy scallops).

**Sustainable fisheries require the balancing of interdependent biological, social and economic factors.**

**Most fisheries  
management plans  
did not include clear  
expectations of what  
is to be achieved.**

**4.48** Only the Atlantic lobster objective is clear and measurable. The other fisheries management plans include no clear expectations of what is to be achieved on either a short-term or a sustained basis.

**4.49** Having the right information to make decisions about resource use is important so the decisions do not endanger the health of the stocks. The Department has indicated that when the status of stocks is uncertain, decisions on resource use will take a precautionary approach — that is, decision makers will err on the side of caution.

**4.50** In addition to a lack of measurable goals and targets, we observed management decisions that did not reflect the “conservation” concerns of departmental officials. The case study on page 4-19 discusses a fisheries management decision to allow the harvest of scallops in an important nursery area for the Bay of Fundy scallop stocks, which are critically low.

**Stock assessment**

**4.51** The Department’s Science Branch conducts annual stock assessments using information from research surveys and studies as well as information on the commercial fishery. It also consults with the industry and fisheries managers on the status of the stock. The Science Branch then provides advice to the Fisheries Management Branch in the form of Stock Status Reports. These reports are important input for decisions by the Minister, or in certain instances by fisheries managers, on how a fishery will be conducted, including the amount of fish that can be caught.

**4.52** In some of the fisheries we examined, we found weaknesses in the information available to support resource use decisions. For example:

- In all lobster fisheries, there is limited knowledge of the role that the

various environmental and ecological factors play in determining reproductive success. While the Department has used one biological reference point to guide its resource use decisions, it has recognized the need to develop additional reference points to assist in its assessment of the status of the lobster stocks (the case study on page 4-20 describes the problems of gathering knowledge in the lobster fishery).

- A total allowable catch for the Bay of Fundy scallop fishery was established for the first time in 1997. This fishery is divided into eight fishing zones. The Department has only limited scientific information to support catch limits in certain zones of this fishery.
- The advice provided by the Regional Science Branch for both the 1998 Newfoundland snow crab and Northern shrimp fisheries did not follow the usual departmental practice of preparing formal Stock Status Reports (see the case studies on page 4-13 and page 4-14 for further information). The total allowable catch was increased in both fisheries in 1998.

**4.53** We can also point to examples where progress is being made in the stock assessment process. In the offshore scallop fishery, science and industry are working together on an ongoing basis to understand the status of scallop stocks and to set harvest levels that protect juvenile scallops coming into the fishery. The Department’s Science Branch and industry monitor the catch of offshore scallops during the fishing season, which allows for harvest levels to be adjusted when and where necessary. In certain Gulf snow crab fishing zones, data from scientific surveys, landings and at-sea observers are used to provide industry with detailed information on location of the resource, its size and composition.

**4.54** Why is there an imbalance in the quality and availability of knowledge about individual stocks? Certain stocks, such as the Northern shrimp and

Newfoundland snow crab, are now found in areas and amounts that far exceed past experience; therefore, the amount of historical scientific information available is limited. The increase in these stocks likely reflects an absence of natural predators, primarily cod, and/or

favourable environmental conditions. For other stocks, such as lobster, some of the Department's previous funding or management decisions have limited its knowledge-gathering capabilities. However, we note that in certain fisheries where co-operation between the

### Inshore Bay of Fundy Scallop Fishery – Has “Conservation” Come First?

In October 1986, the Minister established a line permanently separating the inshore and offshore Bay of Fundy scallop fishing fleets. Inshore vessels were gradually phased out of the offshore fishing grounds. The inshore fishing grounds experienced a rapid increase in landings, reaching record highs in 1989, but subsequently dropped drastically.

**Conservation problems identified.** In a 1995 meeting between the Department and industry representatives, departmental scientists indicated that management measures in place from 1989 to 1995 had been insufficient to prevent recruitment and growth overfishing. Growth overfishing is indicated when reducing the number of scallops harvested will result in an increase in the yield of the scallop stock. Recruitment overfishing occurs when there is a depletion of spawning-age scallops to the point where they are insufficient to maintain the scallop stock.

Scientists recommended that steps be taken to reduce recruitment overfishing by substantially decreasing the meat counts (number of scallops per 500 grams) and thus increasing the size and the age of scallops harvested. In addition, they recommended closing large portions of the Bay of Fundy scallop beds to increase the supply of reproducing scallops. It was also recommended that growth overfishing be reduced by closing the remaining areas of the Bay of Fundy on a rotational basis when a large number of small scallops were harvested.

**The Department recommended a management framework to industry.** In August 1995, the Minister announced that industry had agreed to a decrease in the meat counts and the closure of key scallop beds for a one-year period. Despite these actions, recruitment and growth overfishing continued in the inshore Bay of Fundy scallop beds.

In early 1996, it became apparent to the Department and to industry that measures they had taken were not sufficient to protect small scallops; and catches continued to fall. The Department began discussions with industry to develop a harvesting plan with conservation measures to reduce or eliminate recruitment and growth overfishing and to develop a fleet self-rationalization plan. During discussions within the Department, scientists indicated that the Bay of Fundy inshore stocks were in desperate shape and suggested that a consideration of only biological factors would indicate that the fishery should be closed.

In August 1996, the Department decided that the fishery should be kept open in spite of the concern raised by scientists. The Department indicated as part of its decision that before the 1997 fishery would be opened, industry would have to develop a fishing plan that included specific conservation measures aimed at mitigating the effects of continued fishing. Industry would also have to develop a fleet self-rationalization plan.

**Changes to conservation measures proved ineffective but fishing continued.** During 1997 and 1998, the Department's fisheries managers and the industry developed a plan that contained conservation measures intended to mitigate the effects of recruitment and growth overfishing. The scallop fishery was conducted in 1997 and 1998 with a number of conservation measures (eight fishing zones with individual total allowable catches, reduction in meat counts, closed seasons, etc.) included in the fisheries plans. However, a key conservation measure that would allow the Department to monitor fishing activity by zone (the use of so-called “black box” technology) was not implemented. Also, during the fishing seasons there was limited verification of meat counts, limited at-sea patrols, and weaknesses in the monitoring of landings at dockside. Departmental scientists indicated that catch

declines and recruitment and growth overfishing continued in 1997. The impacts on the fishery in 1998 of not having adopted the key conservation measures are not yet clear.

Industry has adopted a management regime based on individual transferable quotas that resulted in a reduction in the size of the full Bay fleet (the fleet that accounts for approximately 85 percent of annual landings) from 99 active vessels to 66. The effects of this rationalization on the inshore scallop stocks have not yet been determined.

**The Department allowed harvesting in a nursery area.** As part of the negotiations to develop harvesting and management plans, in 1996 and again in 1997 fisheries management allowed the inshore scallop fishers access to an area known as “No Man's Land” in scallop fishing area (SFA) 29. Departmental scientists and some industry representatives recommended that the area be considered a broodstock area and be permanently closed to fishing. Departmental scientists believed that scallops produced by this broodstock would replenish the inshore scallop beds. In July 1996, the Science Branch made the following recommendation: “Given the possibility for recruitment overfishing in the fishing beds, it is preferred that SFA 29 (west of Baccaro Bank) remain closed as a broodstock area for other beds. This is a risk aversion strategy consistent with the lack of information on these resources.”

**Our concerns.** There is a history of growth and recruitment overfishing in this fishery and the Department has shown an inability to effectively monitor the activities of the fishing fleet. Therefore, the decision to allow fishing in “No Man's Land” appears to be inconsistent with the Department's commitment to a precautionary approach to fisheries management.

Department and industry is strong and the industry pays for additional information, there is good knowledge about the status of the stock. This has been the case in the Gulf snow crab and offshore scallop fisheries.

## Management of the fisheries

**4.55** In 1996, the Department introduced the Integrated Fisheries Management Policy. Integrated Fisheries Management Plans (IFMP) were to be

## Atlantic Lobster Fishery – Problems with Knowledge Gathering

### Lack of knowledge is not a new issue.

In the mid-1970s, lobster fishers, fisheries managers and scientists were all concerned about a possible collapse of some lobster fisheries in Atlantic Canada: the stocks were heavily exploited and recruitment failure was seen as a definite possibility because egg production was considered low. Between 1975 and 1995, the Department conducted five studies that examined, to varying degrees, the level of knowledge of lobster population dynamics. All the reports identified the need for the Department to conduct more research to better understand the role of biology, the fishery and the environment in determining reproductive success. It was only following a 1995 Fisheries Resource Conservation Council report that major initiatives were undertaken to examine these questions.

From 1975 to 1995, the Department implemented only limited changes to harvesting practices in some areas, despite concerns about high exploitation rates and low egg production. During this period, lobster landings increased to the highest level observed since 1893, when statistics on this fishery were first collected. The resulting conundrum for the Department was that catches were at a century-high level while the available scientific data were predicting a possible recruitment failure. Departmental scientists concluded that increased landings were the result of increased fishing effort and increased productivity of the stock caused by other factors. The relative contribution of these other factors to increased stock productivity was unknown.

**Fisheries Resource Conservation Council report recommended areas for improvement.** In 1994, the Minister of Fisheries and Oceans asked the Fisheries Resource Conservation Council (FRCC) to examine the question of conservation in the Atlantic lobster fishery and to recommend ways to improve the conservation of the stock. The

FRCC examined the state of scientific knowledge of the lobster fishery and reported that although there was a significant amount of knowledge on lobster biology and ecology, many key elements were still poorly understood.

The Council pointed out that the Department was unable to provide definitive answers to a number of key questions, including:

- the level of egg production required to conserve the lobster stocks. Scientists could not estimate the number of lobsters in the stock or the number spawning. The FRCC suggested that the Department use eggs per recruit as an index of egg production, with an interim target of 5 percent of the eggs per recruit in an unfished population. It also recommended that scientists continue to develop other indices of egg production. Subsequently, the Department adopted as an interim measure the goal of doubling existing eggs per recruit for each lobster fishing area. In most fishing areas this results in a target that is less than that recommended by the FRCC. It has recognized that there may be a need for a more appropriate definition of egg production (for example, egg production per unit area) and practical indicators that are easy to monitor; and
- the key stock recruitment relationships required to predict longer-term changes in stock size. Scientists have not fully identified the key ecological factors that contribute to lobsters' reproductive success and the successful establishment of juvenile lobsters. However, scientists had conducted a 20-year study in a fishing community in Newfoundland that was not definitive but that with 20 more years of study may provide a stock recruitment relationship for this one area.

**Science limited by reduced funding and poor data.** In 1995, the Science Branch set aside \$1.1 million over three years for

special research to address the priority areas identified by the FRCC. A departmental assessment indicated that this special research increased its understanding of the lobster population dynamics. However, a critical project on growth and reproduction, considered important to improving estimates of egg per recruit and egg per recruit based on a reference point, was greatly curtailed by lack of funds and reassignment of personnel.

The Department conducts research on an annual basis to determine the status of the lobster stocks. Information on commercial fishing activity is a major element to support this research. In 1998 the Science Branch reported that for lobster fishing area 34, "the lack of landings data by area fished is a dangerous situation as it makes a full assessment of the (lobster) fishery impossible." While the Department has taken steps to improve the quality of the statistics collected, there are concerns about the timeliness of the information (as noted in paragraph 4.78 of the chapter).

As alternatives to complete statistics on the commercial fishery, the Science Branch has used "index" fishers and at-sea sampling for information on the activities of the commercial fishery. Departmental budget cuts have reduced the number of samples that the Science Branch can obtain from these alternative sources. The reduced samples have increased the variability of the data collected and increased the uncertainty in the scientists' assessment of the stock status.

**Our concern.** Despite recent efforts by the Department, there continue to be gaps in its knowledge of lobster stocks. This limits the Department's ability to ensure that its conservation measures are working in this fishery.

developed for each fishery. These plans were intended to provide for meaningful participation by stakeholders in the management of the fisheries. They would also serve to co-ordinate the activities of the Department's various branches in managing the fisheries. However, the IFMPs are not binding on the Minister, nor do they limit his absolute discretion in making resource allocation and licensing decisions.

**4.56** A review conducted for the Department was critical of the way the IFMPs have been completed. One specific problem the review noted was the impact of stakeholders going outside the IFMP process directly to the Minister. It also noted that key components of the Department (for example, Science, Conservation and Protection, and Aboriginal Affairs) were not fully integrated into the process; nor did external stakeholders feel that they were considered in the process. Further, the review noted that IFMPs were not prepared on a timely basis. Our audit findings support these observations. The Department has begun to implement a management plan in response to the review. We believe that integrated planning is important for cost-effective management of the fisheries.

**4.57** In our October 1997 Report Chapter 15, we observed that rules are needed for key decisions in order to help guide resource use. We noted that without biological reference points or decision rules as guideposts, social and economic factors could influence decisions on the use of individual stocks to the detriment of the biological component of sustainability. Such rules have generally not been developed for the use of the shellfish stocks we examined except, as noted in the case study on page 4-20, in the lobster fishery. If "conservation" of the stocks is the primary objective, then fisheries managers need to work with industry and scientists to develop rules for

key decisions on resource use and include these rules in fisheries management plans.

**4.58** The offshore scallop fishery uses a "roll-over total allowable catch" concept — that is, harvesting activity is adjusted on an ongoing basis according to catch rates and composition of the stock. This concept, which is included in the formal fisheries plan, is designed to limit pressure on juvenile scallops and, therefore, on their future recruitment into the fishery. This is a fishery where industry and science have developed precautionary rules for decisions on use of the resource.

**4.59** We found other examples where conservation goals exist but are not part of the formal fisheries plan. These goals are in the form of reference points but have not been formally adopted as decision rules. In the Gulf snow crab fishery, for example, a predetermined exploitation rate is used in conjunction with biomass estimates to determine the total allowable catch. However, this exploitation rate does not have a strong biological basis, as it was originally chosen for economic reasons. The Gulf shrimp fishery uses a "basket" of biological indicators to recommend the direction of change in the yearly total allowable catch.

**4.60** The Science Branch is currently developing a working definition of the precautionary approach and incorporating it into its advice to the Fisheries Management Branch. We support movement in this direction. Still, it is not clear how fisheries managers plan to incorporate the precautionary approach into their decision making on resource use.

**4.61** The Fisheries Management Branch is not compelled to follow the advice that emerges from the stock assessment process. In some fisheries there is a direct correlation between the stock assessment advice and the fisheries management decisions. In other fisheries, considerations other than stock assessment advice play a significant role in decisions on resource use. In fact, we found that in

It is not clear how fisheries managers plan to incorporate the precautionary approach into decision making.

some such decisions it was difficult to see how fisheries managers had applied a precautionary approach:

- In 1997 changes were made to key conservation measures planned for the Bay of Fundy scallop stocks. These measures — aimed at protecting young scallops — were changed after industry and political concerns had been expressed about their impact on industry viability.
- The Newfoundland snow crab management plan, approved in 1997, was intended to be in place for 1997 and 1998 without a change in the total allowable catch, unless the scientific advice indicated that there was a substantial change in stock status. On 20 March 1998, the Regional Science Branch advised the Regional Fisheries Management Branch that there was no basis for suggesting a change to the management plan for 1998. However, on 3 April 1998, Newfoundland fisheries managers notified the scientists that they had made a commitment to review the 1998 total allowable catches for the inshore fleet. At that time, fisheries management proposed increases totalling 6.7 percent to address this commitment to the inshore fleet. The Regional Science Branch then concurred with the proposal on 6 April 1998. The total allowable catch was subsequently increased by 9.5 percent.
- The Science Branch did not consider the doubling of the 1998 total allowable catch in shrimp fishing area 6, which followed the doubling of the total allowable catch the year before, to be a “conservative or precautionary approach”. Further, as noted in paragraph 4.52, there was no formal Stock Status Report to support the 1998 decision.

**4.62** The purpose of the Integrated Fisheries Management Plans is to integrate the interests of all stakeholders in the management of the fishery. However, we have observed examples of planning that did not deal with scientists’ concerns about unsustainable practices.

**4.63** For example, before the inshore sector began fishing for Northern shrimp in 1998, the Science Branch and others had raised concerns about the likelihood that large quantities of small, low-priced shrimp would be dumped at sea by this sector. Such practices waste the resource and affect the future growth of the stock. It would be important that the Science Branch have access to information about the extent of such practices when it makes assessments of the stock status. However, the 1998 plan for this fishery did not reflect scientists’ concerns about dumping at sea.

#### **Monitoring, control and surveillance — ensuring the sustainable harvest of the stocks**

**4.64** Monitoring, control and surveillance (MCS) refers to the systems and processes used to capture information about the commercial fishery and, in some instances, to control the fishing practices of industry. In the Atlantic shellfish fisheries the Department conducts and funds some MCS, while other aspects are delivered by private sector organizations and paid for by industry. Exhibit 4.5 shows the MCS systems and processes used in the Atlantic shellfish fisheries.

**4.65** The objectives of MCS include gathering complete and accurate information about the fishery and ensuring that the fishery is conducted in accordance with the fisheries management plan and the fisheries regulations. Co-ordinated and effective MCS, including effective enforcement, is important to ensure that fishers are conducting their harvesting activities in a sustainable manner.

**4.66** We observed that in most fisheries there is a lack of co-ordination in planning MCS. Responsibility for aspects of MCS is split among the Department’s various components. Despite the use of Integrated Fisheries Management Plans in many fisheries, the various components of the Department operate largely in isolation of each other. The more complex

the fishery, the less likely it is to have a co-ordinated approach to MCS. For example, the Northern shrimp fishery is one that includes both offshore and inshore fleets, covers a large geographic area and involves more than one region of the Department. Yet we found that the Plan for this fishery did not address concerns about dumping at sea by the inshore sector.

**4.67** In comparison, the Gulf crab fishing area 19 fishery covers a small area that has few landing locations, a small number of participants and an industry group that is active in decisions on the management of the fishery. These factors, combined with the limited number of fishery officials involved, make it easier to implement effective MCS, including enforcement.

**4.68** Our October 1997 Report Chapter 15 discussed elements of MCS in the groundfish fishery. The following observations include our comments on the Department's progress in areas reported in that chapter, since the practices in the shellfish and the groundfish fisheries are somewhat similar.

**4.69 Dockside monitoring.** Dockside monitoring is the process used in most fisheries, except the lobster fishery, to gather information about landings by individual fishers. Fishers procure the services of a dockside monitoring organization to monitor their landings of fish and report them to the Department.

**4.70** In our October 1997 Report, we observed that while this system was an improvement over the previous system, there were weaknesses in controls over dockside monitoring. The Department responded in part, by enacting regulatory changes designed to control the activities of dockside monitoring organizations; these came into force 1 January 1999. We observed that the problems in dockside monitoring for groundfish also applied to shellfish.

**4.71** In 1998, enforcement officers were requested to conduct "audit" tests of dockside monitoring activity to provide information about its overall effectiveness. Only the Newfoundland Region attempted to conduct these audits. It encountered problems and was not able to obtain the desired information about the operation of dockside monitoring in Newfoundland. Still, we are encouraged that the Newfoundland Region made this initial attempt and that in the 1999 fishing year it appears to be changing its approach to the "audit" of dockside monitoring.

**4.72 At-sea observers.** There are several methods available to the Department to monitor and control fishing practices at sea, although at-sea observers on fishing vessels or boarding by enforcement officers are the methods that provide first-hand insight. The main practices that these methods address are dumping and discarding at sea or using illegal harvesting methods.

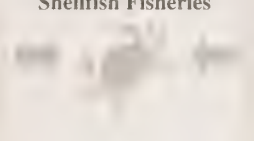
| Fisheries and Oceans |   | Private Sector   |  |
|----------------------|---|--|--|
|                      |   | ( gathers information and reports to Department)                               |  |
| At-sea enforcement   |  | At-sea observers   |  |
| Aerial surveillance  |   | Dockside monitoring – gathers information about landings by individual fishers |  |
| Dockside enforcement |   | Conservation Harvesting Plans  |  |
| Other surveillance   |   |  |  |
| Data analysis        |   |  |  |

Exhibit 4.5

**Monitoring, Control and Surveillance Systems Used in the Atlantic Shellfish Fisheries**

Information from  
at-sea observers was  
not used effectively to  
manage the fishery.

**4.73** In October 1997, we noted that the information provided by observers was not being used effectively to determine the extent of unsustainable fishing by the groundfish industry. In addition, the Department had not developed a systematic approach that integrated information from at-sea observers and other sources into its management practices. These observations also applied to shellfish management in 1998.

**4.74** Coverage targets — the percentages of fishing trips planned with at-sea observers on board — vary among fleets, from no coverage in the lobster fishery to 100 percent coverage in the offshore Northern shrimp fishery. Moreover, different targets exist even for fleets fishing the same stock:

- Coverage targets for Northern shrimp are 100 percent of the offshore sector and 10 percent of the inshore fishers.
- For Gulf snow crab, coverage targets are 20 percent and 5 percent in areas 12 and 19 respectively, although these are adjacent areas.
- Newfoundland snow crab has no observer coverage of the inshore “temporary” fleet, but a target of 5 percent coverage of the rest of the fleet.

We could find no systematic basis for establishing coverage targets for at-sea observers.

**4.75** In some fisheries, such as Gulf snow crab and Newfoundland snow crab, targets for fleet coverage by observers were met in 1998. Even so, only 1.5 percent of the actual catch of Newfoundland snow crab was observed. In the Northern shrimp fishery, the inshore fleet in shrimp fishing area 6 attained 5 percent coverage in 1997 and 6 percent in 1998; the target for each year was 10 percent.

**4.76** While some information from at-sea observers is used to support science or enforcement activity, we found that for

the most part it was not used effectively to manage the fishery. For example, management ignored some observer information that had been collected specifically to address key conservation concerns. In 1998, the Gulf snow crab area 18 fishery had a protocol established for conditions that required a closure. If the amount of landed crab that was soft-shelled (recently molted) exceeded 20 percent of the catch over a 48-hour period, industry was advised to modify its practices. If the same conditions existed in the subsequent 48-hour period, the fishery was to be closed for the season. We noted several occasions when the incidence of soft-shelled crab exceeded 20 percent for two consecutive 48-hour periods without the closure of the fishery. We noted that the fishery was closed three times during the season and subsequently reopened. We also observed that as the incidence of soft-shelled crab increased, the amount of at-sea coverage decreased. In fact, observer coverage was lowest when the percentage of soft-shell crab was highest. In the Newfoundland snow crab fishery, at-sea observer information on the incidence of soft-shelled crab is not used to determine whether closure is warranted.

**4.77** In October 1997, we noted that the Department was not using information from at-sea observers to determine the extent to which the groundfish industry’s practices were unsustainable. This type of analysis is referred to as “indexing” — the practices and catches of vessels with at-sea observers are compared with those of the other vessels. This gives an indication of whether fishers engage in unsustainable practices when observers are not on board. We found in the shellfish fishery, too, that as a rule the “indexing” analysis is not completed. The two exceptions were the Newfoundland snow crab fishery (1996 and 1997) and Gulf snow crab area 12 (1998). The “indexing” analysis showed the occurrence of highgrading (retention of only higher-value snow crab) and discarding — 25 percent in the Newfoundland snow

crab fishery and 20 percent in Gulf snow crab area 12 fishery.

**4.78 Fishery management information systems.** The observations we made in 1997 about the fisheries management information systems are still valid. These systems are of limited use to those engaged in fisheries management. There is a lack of integration between the various systems, and the information is not timely or complete. For example, information on lobster landings for 1997 was still not available by December 1998. The Department has a five-year plan to replace these systems.

**4.79 Aerial surveillance.** Aerial surveillance is heavily concentrated on fisheries near the international boundaries, with limited coverage of the shellfish sector. It is used to provide management with information on industry activity, to help target enforcement activities, and to monitor and enforce specific zone areas.

**4.80 Other surveillance.** The Department is experimenting with other types of innovative surveillance techniques. For example, the offshore scallop fleet has adopted so-called “black box” technology, which uses global positioning systems to monitor activity. This system provides the Department with a real-time monitoring capability.

**4.81 Enforcement.** We observed that enforcement activity is more rigorous in some fisheries than in others. The reason for this is not always obvious but depends on the circumstances in each fishery. For example, there is a relatively high level of enforcement in the Gulf snow crab area 19 fishery.

**4.82** By contrast, there is minimum enforcement coverage in the Bay of Fundy scallop fishery. Enforcement officials believe that putting more resources into monitoring this fishery would not be productive, given the combination of the existing fisheries management plan and the lack of at-sea enforcement capability.

In fact, the post-season review of conservation and protection for this fishery states that the existing fisheries management regime cannot be enforced.

**4.83** We found that there are gaps in enforcement coverage at sea because the Department does not have the vessels to cover certain areas. For example, midshore and offshore shellfish areas have little or no coverage by patrol vessels. Near-shore coverage (closer than 20 miles) has recently improved. Since 1996, the Department has purchased 69 specialized vessels to cover this area. In areas where there is limited at-sea enforcement, at-sea observer coverage becomes the principal tool to control unsustainable harvesting practices such as discarding and dumping; however, as we have already noted, for the most part this tool is not being used effectively. Exhibit 4.6 shows, for shellfish stocks included in our audit, the areas where the Department has limited or no capability to perform at-sea enforcement.

**4.84** In 1998, the Department conducted forensic audits and enforcement actions in several fisheries, including snow crab fisheries in Nova Scotia. These enforcement actions have provided an insight into certain unsustainable practices by fishers and those who buy their fish, and have led to the laying of a number of charges. Up until now, the Department has relied heavily on the skills of a few individuals to conduct its forensic audits. However, it is working to develop the institutional capability to continue this important activity.

**4.85 Administrative sanctions and penalties.** Under the Department’s Administrative Licence Sanction Policy, the Regional Director General could apply a sanction (for example, suspend the right to fish for a period of time) in addition to criminal prosecution in the event of a serious conservation-related offence. As we noted in October 1997, the Department has put the sanction policy on hold

pending the hearing by the Federal Court of Appeal of several court decisions made by the Federal Court–Trial Division, which held that the Minister did not have the authority to impose administrative sanctions. Some form of sanction can be a cost-effective tool because it can be tailored to the nature of violations and can be applied in a timely manner.

### Summary

**4.86** The Department has not set out what it means by “conservation” in a way that would guide its managers when making resource use decisions. While fisheries managers understand that the “conservation” objective reflects the biological aspects of sustainability, most fisheries management plans we reviewed did not contain objectives that were clear and measurable. We found weaknesses in the information available to support resource use decisions. The Department does not have biological reference points





or guidelines for key decisions on the biological component of sustainability. Gaps and weaknesses in the monitoring, control and surveillance systems and processes limit their operational effectiveness.

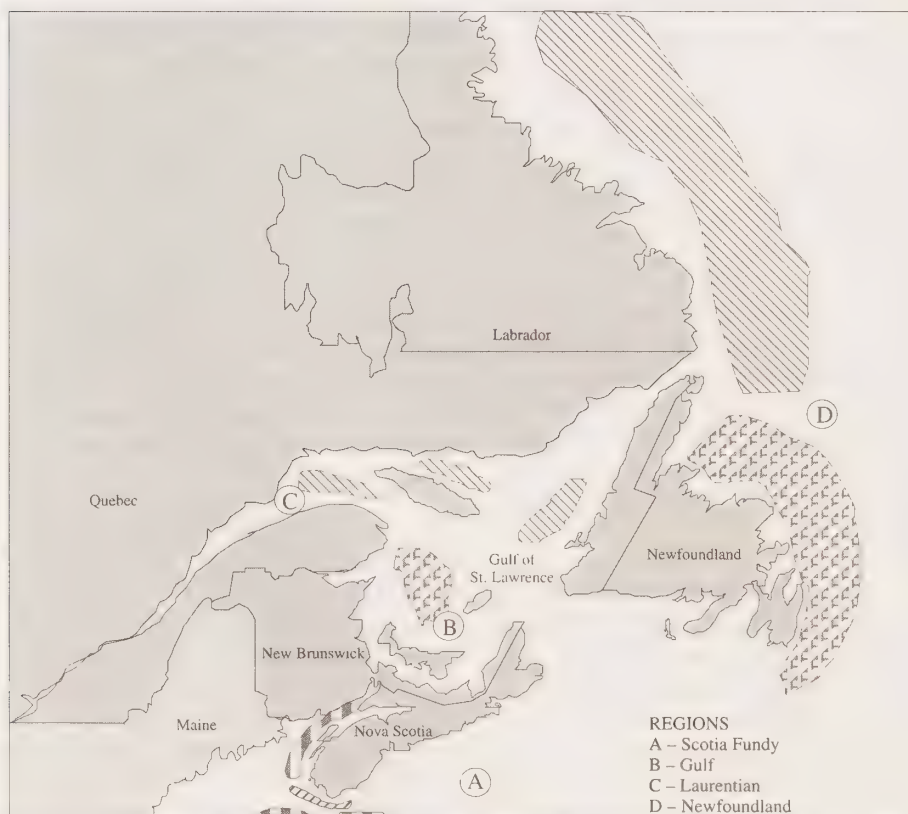
**4.87** The Department should develop, over time and in consultation with fishers and other stakeholders, biological reference points and conservation guidelines as the basis for making recommendations on resource use decisions.

*Department’s response:* Fisheries and Oceans has established a Working Group that has been given the responsibility of clarifying its Atlantic fisheries management policies. In the context of this initiative, a number of broad management aspects will be addressed, including better defining conservation and the precautionary approach. Once these definitions are adopted, this would lead to the establishment of biological reference

Exhibit 4.6

Shellfish Stocks Audited –  
Areas with Little or No At-Sea  
Enforcement Capabilities

-  Lobster
-  Scallop
-  Shrimp
-  Snow Crab



Source: Review of Fisheries and Oceans data

points and of rules for taking conservation-related decisions.

**4.88 The Department should correct weaknesses in its monitoring, control and surveillance systems and processes.**

***Department's response:** Under the framework developed by DFO for the preparation of Integrated Fisheries Management Plans (IFMPs), it is provided that they are to include enforcement measures for the control and monitoring of fishing activities to achieve management objectives. Many of the existing IFMPs for shellfish fisheries already include such measures and any new plan being developed along the IFMP framework will provide for such measures. Any gap or weaknesses in the surveillance systems are addressed as they are brought to the attention of the responsible managers.*

## Co-management — An Important Initiative

**4.89** The Fishery of the Future strategy has called for the “devolution to fish harvesters of a greater decision-making role and more responsibility for costs of resource conservation and management”. Initially, the government proposed amendments to the *Fisheries Act* that promoted a form of partnering as the way it would structure the devolution of decision making. These amendments did not receive final parliamentary approval and died on the Order Paper. The Department eventually decided to move forward with a different concept, called co-management.

### What is co-management?

**4.90** At the most basic level, co-management is a form of power sharing. The extent and form of this power sharing can be quite varied and can evolve over time. Co-management involves an agreement between at least one level of government and another group. A definition of co-management has been put

forward by the National Round Table on the Environment and the Economy (NRTEE), in its paper *Sustainable Strategies for Oceans: A Co-Management Guide*:

Co-management is a system that enables a sharing of decision-making power, responsibility, and risk between governments and stakeholders, including but not limited to resource users, environmental interests, experts, and wealth generators.

**4.91** The NRTEE has concluded that a co-management approach to ocean issues, including fisheries management, has potential benefits that include bringing together interests, changing relationships, fostering joint accountability, supporting transparency and autonomy, devolving decision making and responding to regional needs.

### The Department's approach to co-management

**4.92** The Department's “Framework and Guidelines for Implementing the Co-management Approach” (17 April 1997) describes four possible levels of co-management. The first and most basic level that the Department considers to be co-management has user groups providing input to the Integrated Fisheries Management Plans. The second level has user groups, through their legally constituted, representative organizations, entering into agreements that reflect a greater involvement in the management of their specific fishery. At the third level, fishers would enter into formal partnering through legally binding arrangements that transfer greater responsibility to industry. This level would require changes to the existing *Fisheries Act*. The fourth level is co-management legislated under land claims settlements.

**4.93** In the fisheries that we examined, only the first and second of these levels of co-management were represented. The third level has not been pursued because

Co-management is a form of power sharing.

the amendments to the *Fisheries Act* did not receive final parliamentary approval. The Northern shrimp fishery conducted within the bounds of the Nunavut Settlement Area is subject to the Nunavut Land Claims Agreement; this is a form of legislated co-management. Our audit did not examine this particular arrangement.

**4.94** The co-management arrangements that we examined involved no sharing of real decision making but they did formalize the process of consultation with stakeholders. Also, there was no broad-based stakeholder involvement; instead, the arrangements focus on already identified licensed fishers or their organizations.

#### **Is it co-management or offloading of costs?**

**4.95** In May 1996, the Department issued a paper entitled *Fisheries Management Partnering Policy Principles*. Among other things, this paper sets out the principle of cost recovery:

... all resource management costs that are attributable to the fleet and that result in or support private benefit to the fleet should be either paid for or undertaken by the fleet. Those costs which can be associated with public benefits would be paid for through appropriations. This will require the calculation of attributable costs for fisheries supported by a credible departmental costing system.

**4.96** We found that the Department has not determined which of its resource management activities, including science activities, result in or support private benefit to the various fleets. In other words, it has not consistently made the distinction between its core activities and other activities. In addition, it does not have a costing system that could generate this kind of information.

**4.97** In reality, the types of costs recovered from industry are quite varied. In some sectors, such as offshore scallops,

the industry itself pays directly for the cost of certain fisheries science activities. In other sectors, costs are recovered from the industry but there is no consistency in the types of costs that are recovered. For example, in Gulf crab fishing areas 12 and 19 a majority of the costs of stock assessment have been recovered from industry. By contrast, in the Gulf shrimp fishery only science costs that were incremental to existing arrangements were recovered.

**4.98** It is useful to look at the fisheries where industry does not pay any of the costs of fisheries management and science. There, for example, the Department funds the costs of the annual stock assessment process, including any research surveys. Yet in 1996, when the Department wanted to enter into a co-management arrangement with fishers in Gulf snow crab fishing area 12, it asked them to pay the costs of stock assessment, including the research survey. When the industry refused to pay these costs because of a dispute with the Department over the sharing of the 1996 quota, the Department did not carry out the survey for that year. In the following year, the industry funded the research survey. Given its “conservation” objective it is not clear why, in this case, the Department has considered the stock assessment process, including the research surveys, to be a private rather than a public benefit.

**4.99** Co-management, as it has been applied, has added another layer of management costs to the existing structure. A panel appointed by the Minister to study the partnering concept reported on 10 December 1998, “Those who have negotiated a co-management agreement with DFO admit that the process was both time-consuming and costly.” In addition, the panel reported that all of the people it consulted outside the Department felt that co-management represented a downloading of fisheries management costs from the Department to industry. The Department has not

**The Department has not defined its core activities.**

determined whether the total cost of managing the fishery, for both industry and government, is higher or lower under co-management.

**4.100** In paragraph 4.24, we noted that fishers organizations were given temporary allocations of shellfish to strengthen or support initiatives by the organizations and to redistribute income to their members. Before approving the temporary allocations, the Department had the fishers' organizations submit a business plan for fishing the allocation and using the resulting benefits. In certain fisheries (for example, Gulf crab fishing area 12), fisher organizations that received the temporary allocations charged fees or imposed other conditions for access to a portion of the allocation. Once the allocations were granted to the fisher organizations, the Department had no

mechanism to hold them accountable for following the business plans they had submitted.

#### Arrangements with third parties

**4.101** We have concerns about the way the Department implemented financial arrangements with fisher organizations. The case study below describes our concerns about the imposition of a fee for access, totalling \$5 million in 1997 and \$2 million in 1998, that may not be contemplated in the legislation.

**4.102** We also have concerns about the way the Department is using a specified purpose account to reimburse its own departmental expenditures. The *Financial Administration Act* requires all public moneys to be deposited to the credit of the Receiver General. These funds generally are recorded in the Accounts of Canada as

### Solidarity Funds – Imposition of a Fee That May Not Be Contemplated in Legislation

In 1997, changes to allocations for Gulf crab fishing area 12 resulted in the displacement of many plant workers and crew members. In response, a fund was established to provide employment opportunities for those affected. According to departmental documents and press releases, this fund (Solidarity Fund) was to be voluntarily established by industry and was to be operated at arm's length from the Department. Initially, a fund was to be established for New Brunswick only, but pressures from crab fishers in other provinces led to the creation of similar funds in Quebec, Nova Scotia and Prince Edward Island.

Fishers in area 12 contributed \$5 million in 1997 and \$2 million in 1998 into the funds through a levy on the price paid per pound of snow crab landed. Fishers each paid to their fisher's organization a fee of \$0.15 per pound in 1997 and \$0.08 per pound in 1998. For example, a fisher who was allocated 300,000 pounds was required to pay \$45,000 in 1997 and \$24,000 in 1998.

In both 1997 and 1998, the Department allocated quotas to companies established by the fishers' organizations. In each year,

approximately 20 percent of the snow crab that had been originally allocated by the Minister to the traditional midshore fishers was reallocated by the Department to these organizations. Departmental officials have informed us that a majority of the traditional midshore fishers approved, by a vote, the overall co-management approach, including establishment of the solidarity funds.

Subsequently, the Department approved the transfer of this 20 percent allocation from the fishers' organizations to the individual fishers. However, the Department approved transfer requests from the fishers' organizations only after receiving confirmation that the individual fishers had paid the per pound levy to the organization and that the moneys were on deposit in an "in trust" account created at a financial institution (in trust pending transfer to a solidarity fund). Release of moneys from the "in trust" account to the solidarity fund was not completed until the financial institution received "notification from the Department of Fisheries and Oceans (DFO) that a legal entity or instrument that meets the requirements/satisfaction of DFO has been created".

Prior to authorizing transfer of money to the solidarity funds, the Department required business plans describing how the money would be used. It also made suggestions on the funds' structure and mandate. In New Brunswick, a departmental official sits on the fund's Board of Directors and influences decisions on projects to be financed with fund money.

**Our concerns.** The Department is involved in fund decision making and in ensuring that the levy is paid and transferred to the solidarity funds. In our opinion, through these actions it has effectively imposed a fee on fishers to access the resource, which does not appear to be contemplated in legislation.

In addition, the Department has no mechanism to report on its activities with respect to these funds. The Department has stated that it is operating at arm's length from the funds and, therefore, in our view is not acting in a transparent and accountable fashion.

revenue. However, there are exceptions to this requirement. For example:

- Parliament may give a department the authority to apply such funds against its appropriation as a negative expenditure (“net-voting authority”).

- The Receiver General for Canada may give a department the authority to establish a specified purpose account (an account in the Consolidated Revenue Fund) to receive and disburse moneys for specific activities.

**4.103** Treasury Board policy requires that specified purpose accounts must not be used to reimburse departmental expenditures. However, goods and services provided by departments may be purchased with specified purpose funds when:

- the department providing the goods or services is not otherwise involved in the use of the money (that is, it is not part of the cost sharing or joint project agreement); and
- the department providing the goods or services operates under a revolving fund or net-voting authority.

**4.104** Fisheries and Oceans is disbursing money from a specified purpose account to reimburse its own departmental expenditures (that is, the salaries of scientists, conservation and protection officers, and fisheries resource managers) incurred under a joint project agreement with third parties. The Department does not have a revolving fund and does not have net voting authority. In our view, the Department’s management of the specified purpose account is not consistent with the Treasury Board policy that governs this activity.

### Summary

**4.105** It is important that the Department move away from micro-management of the fishery to a form of industry participation or decision

making that clearly articulates accountability arrangements.

Co-management arrangements that we examined are largely cost-sharing arrangements and have involved no sharing of real decision making.

**4.106 The Department should clarify its objectives for co-management and, where necessary, seek parliamentary approval to implement this approach.**

*Department’s response: Fisheries Management co-management is about DFO and fishers working together to better manage Canada’s commercial fishery. This concept is at an early stage and many pilot projects have been undertaken. The co-management approach builds on a renewed relationship between government and the fishing industry. The approach we have developed is the co-development, with industry, of an Integrated Fisheries Management Plan, which sets out harvest levels, conservation requirements and certain allocation processes for participants. This is undertaken under the authority of the Fisheries Act. As well, and on a voluntary basis, Joint Project Agreements are negotiated with fishers or their representatives. These are legally binding agreements and are not directly related to the IFMP. The legal authority is the Financial Administration Act. Control measures are in place within the Department to ensure financial and legal aspects are respected before concluding these arrangements.*

*Although the first recommendation of the Panel on Partnering urges the Minister of Fisheries and Oceans not to go forward at this stage with legislation for partnering, its second recommendation is to urge the Minister and DFO to pursue co-management and partnering as an important building block for the fishery of the future. DFO will pursue the co-management approach with interested groups.*

## Conclusion

**4.107** We noted significant weaknesses in the Department's management practices designed to achieve its objectives for the Atlantic shellfish fishery. Our audit found decisions that contradict the Department's Fishery of the Future strategy, which formed the basis of our criteria for this

audit. In addition, the Department is pursuing social objectives that it has not articulated to Parliament, and economic objectives for which it has not identified expected results. There is an urgent need for the Department to clarify these objectives and to develop and implement the strategies to achieve overall sustainability of the Atlantic shellfish fisheries.

## About the Audit

### Objective

The objective of our audit was to assess the extent to which the Department's fisheries management practices in the Atlantic shellfish fisheries support and complement its management objectives.

### Scope and Approach

In October 1997 we reported on weaknesses in the management of the Atlantic groundfish stocks, and chronicled the problems that eventually led to their collapse. While groundfish landings are at historical lows, the shellfish industry is currently recording historically high landings. Lobster and scallop fisheries have a long history in Atlantic Canada but the importance of other shellfish fisheries is a more recent phenomenon, with some having become important only in the 1980s. Since then, the landed value for most shellfish has risen dramatically.

The subject of this audit was the Department's fisheries management practices in the Atlantic shellfish fisheries. Our approach was to assess whether the Department's management of the shellfish industry has been designed and operated to meet its stated objectives for fisheries management, including related science functions.

We examined the lobster, snow crab, shrimp and scallop fisheries to determine whether and to what extent the fisheries management objectives have been implemented in practice. In addition, we reviewed fisheries management practices to determine whether they are consistent with the management objectives.

We conducted this audit through interviews with departmental staff and representatives of industry. We examined and analyzed departmental files, data and documentation. We observed enforcement officers carrying out their activities in ongoing fisheries.

### Criteria

We expected that the Department's fisheries management practice would:

- be designed and implemented to achieve the biological aspects of a sustainable resource and to assure sustainable utilization of the resource;
- include sharing responsibility with industry, where appropriate and within the limits of existing legislation for fisheries management and decision making, while holding it accountable for the agreed-upon sustainable use objectives; and
- support the Department's strategy to make fisheries economically viable and self-reliant over time.

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## Appendix

### Good Practices Review — Sustainable Fisheries Framework

The history of world fisheries provides many examples of unsustainable fisheries. Over and over again, significant world fish stocks have been reduced to levels far below what could be considered sustainable. In fact, the Food and Agriculture Organization (FAO) of the United Nations has reported that 60 to 70 percent of the world's fish stocks require urgent intervention to avoid further decline of fully exploited and overfished resources and to rebuild depleted stocks.

As part of this audit, we reviewed fisheries frameworks in other jurisdictions and material written on sustainable fisheries by notable organizations such as the FAO, to determine if there were lessons to be learned for our Canadian context. It should be noted that the lessons learned represent the strengths we observed in all of the fisheries frameworks of the jurisdictions we reviewed, including Canada. They do not represent observations about the fisheries regime of only one or two jurisdictions.

Our intention in preparing this review of good practices is not to provide a prescriptive approach to fisheries management. Rather, we believe that it is important to note those practices that appear to support sustainable fisheries.

#### Lessons Learned

**Legal framework for sustainability.** We observed jurisdictions where the legislation governing fisheries management reflects important concepts of sustainability. For instance, the means by which the biological, economic and social factors affecting the fishery are to be considered are established in a clear and transparent fashion. Other important factors set out in legal frameworks include conservation goals, rules over access, issues of property and use, enforcement, and dispute resolution. In addition, the legislative bodies of certain jurisdictions have put a good deal of ongoing effort into considering and debating the legal framework needed to support a sustainable fishery.

**Science and precaution.** The objectives of those responsible for managing and of those fishing should be to continually expand the understanding of the individual stocks but also to understand the important interactions of species in the ecosystem. Included in this understanding is the ability to take into account natural environmental fluctuations in the ecosystem. We observed operational decision rules based on biological reference levels that have been developed from an understanding of the affected stocks and ecosystems. In recognition of the limits to scientific approaches, management regimes can incorporate methodology that uses a precautionary approach when confronted with uncertainty. It should be recognized that the precautionary approach is a developing concept and that much of the work on it has been undertaken by scientists rather than by fisheries managers, yet it is the fishery management that has to be precautionary, not the science. Harvest amounts respect the biological reference level where possible, and strong monitoring is undertaken to ensure that the harvest amounts are respected. Knowledge of changes in the ecosystem is important in considering their impacts on the harvest, although it is recognized that this is a developing area.

In most jurisdictions, knowledge-gathering processes depend very heavily on biology while underusing the social and economic sciences. We did observe in at least one jurisdiction the use of economics in establishing important decision rules and ecosystem impacts. The involvement of industry and affected communities in decision making could lead to a higher level of involvement of these other sciences in knowledge gathering.

**Vested interest of participants.** Successful fisheries management regimes ensure that all participants have a vested interest in promoting and achieving a sustainable fishery. A primary vested interest is the economic viability of industry.

**Responsibility of industry.** We noted that those who receive the right to fish are held responsible in some jurisdictions for any of their activities that are not sustainable. Ultimately, the penalty they pay for unsustainable behavior outweighs any benefit of such behavior.

Industry plays an important role in decision making in the fishery, whether in a formal or informal way.

**A strong fisheries management institution.** In some jurisdictions, the government institution responsible for protecting the public interest in the resource can hold accountable those given the right to fish. In several jurisdictions, the cost of fisheries management is either partially or fully recoverable from the industry that benefits from the resource. The government institution is held accountable for the cost-effective delivery of a specifically defined fisheries management function.

In addition, the government institutions are supported by clearly articulated principles for resource allocation decisions. The decisions are made in a transparent and equitable fashion and are subject to challenge.

**Government subsidization.** The FAO has promoted a policy that government assistance to the fishery, either in the harvesting or processing sectors, should be the exception rather than the rule. The fishery is a fully mature and, for the most part, fully exploited sector. Therefore, government subsidization would have the effect of modifying the decisions of those participating in the fishery — for instance, fishers might stay in the fishery even though it would not otherwise be in their economic interest. We observed that several jurisdictions have adopted a policy of subsidy elimination.

**Value added.** We noted that promotion of the concept of highest possible value added provides a higher net economic return to the individual and the economy. In the end, it promotes a greater respect for the resource.

**Action and timeliness.** The legal framework, including a conceptual understanding of sustainability, is very important but needs to be supported by appropriate, timely action to ensure that sustainability is actually achieved.



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Report of the  
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of Canada**  
to the House of Commons

**Chapter 5**  
Collaborative Arrangements:  
Issues for the Federal Government

**April 1999**



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**April 1999**

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## **Chapter 5**

### **Collaborative Arrangements**

Issues for the Federal Government



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# Collaborative Arrangements

## Issues for the Federal Government

### Main Points

**5.1** Collaborative arrangements are an alternative way — a potentially more innovative, cost-effective and efficient way — to deliver programs and services that traditionally have been provided by federal government departments and Crown corporations. In collaborative arrangements, the federal government, other levels of government and organizations in the private and voluntary sectors agree to share power and authority in decisions on program and service delivery.

**5.2** With the growing use of these arrangements, more taxpayer dollars are being spent and the risks need correspondingly more attention. The risks include arrangements set up poorly among the partners, limiting their chances for success; partners not meeting commitments; insufficient attention to protecting the public interest; insufficient transparency; and inadequate accountability.

**5.3** We believe that serving the public interest, effective accountability and greater transparency are basic elements of a framework for these arrangements, and we suggest questions that parliamentarians might wish to raise when assessing them.

#### Background and other observations

**5.4** In the desire for greater efficiency, it is very important that the federal government and its partners not lose sight of the public purpose behind the collaborative arrangement, and of the need to provide transparent, fair and equitable service to the public.

**5.5** Effective accountability is more complex in a collaborative arrangement. The federal government is accountable to Parliament for the use of federal funds and authorities, to its partners for keeping its commitments, and, with its partners, to the public for the results the arrangement produces. In our view, this shared accountability means that more parties are accountable and it in no way lessens the federal government's accountability for its own responsibilities in the arrangement.

**5.6** Delivering programs and services to the public through collaborative arrangements often requires more transparency than traditional delivery by a government department. Because partnerships are involved, it may be more difficult for citizens to know who is responsible. Consequently, the federal government needs to be as open as possible with information about agreements, decisions and results of the arrangements.

**5.7** The Treasury Board Secretariat has informed us that it intends to continue to provide advice and to develop guidance on collaborative arrangements for federal departments and agencies that will address many of the issues identified in this study.



## Introduction

**5.8** This study examines collaborative arrangements between the federal government, other levels of government and the private and voluntary sectors.

**5.9** Collaborative arrangements, also called partnering, are increasingly being used in federal program and service delivery as a management tool and to share power and authority with the government's partners in making decisions. In our view, they have the potential to be an innovative, cost-effective and efficient way of delivering programs and services.

**5.10** Examples of collaborative arrangements include:

- the Canada Infrastructure Works program;
- Labour Market Development Agreements with the provinces and territories; and
- The National Action Program on Climate Change and related initiatives.

**5.11** Another study in this Report, Chapter 6, examines two federal-provincial-territorial programs of what has become known as the "social union". These programs, the National Child Benefit and Employability Assistance for People with Disabilities, illustrate many of the challenges of collaborative arrangements. In particular, they show the need for overall reporting when there is shared accountability, and the desirability of obtaining comparable and accurate data from the different partners.

**5.12** The Treasury Board has expressed the rationale for the use of a collaborative arrangement as an alternative to the traditional federal structure of departments, agencies and

Crown corporations in the following terms:

The government will cooperate and develop partnering arrangements among departments and with other levels of government and other sectors of the economy. These arrangements will help it create new working relationships, exercise influence and leadership in the national interest, avoid costly duplication and overlap in services, and build on the strengths and capacity of other sectors to provide programs and services that are responsive to the client, innovative and affordable. (*Framework for Alternative Program Delivery*, 1995)

**5.13** The government has stated:

There are many alternatives to traditional departmental structures for delivering programs, and the government is vigorously pursuing those alternatives... Partnerships are an important form of alternative service delivery. Partnering with other governments, voluntary organizations and the private sector helps the federal government reduce overhead costs and duplication, and bring services closer to citizens. (*Getting Government Right: Governing for Canadians*, 1997)

**5.14** We undertook this study for several reasons:

- More taxpayer dollars are being spent this way. Partly because of Program Review, the federal government has been making greater use of collaborative arrangements and has committed itself to doing still more.
- There are risks that deserve attention. These include the risk of poorly defined arrangements, limiting the chances for success; partners not meeting commitments; insufficient attention to protecting the public interest; insufficient transparency; and inadequate accountability.
- Many collaborative arrangements are new and not well understood.

Collaborative arrangements have the potential to be innovative, cost-effective and efficient.

As more taxpayer dollars are being spent through collaborative arrangements, there are risks that deserve attention.

Collaborative arrangements have common objectives tied to a public policy purpose, shared governance and written agreements on governance and financing.

**5.15** The choice of a collaborative arrangement as the means of program and service delivery is a policy decision of the federal government, which has consequences for Parliament and the Canadian public. In a collaborative arrangement, the federal government is one of a number of partners, and the partners operate in a governance regime where together they determine how key decisions will be made. As a result, accountability to ministers, to Parliament and to the public may become diffused unless care is taken in establishing and managing the arrangements. In contrast, a government department is directly accountable to the responsible minister, who answers for it in Parliament, and it operates within established rules and procedures for the allocation, control and management of human and financial resources.

**5.16** In our view, there is a need to better understand how to manage the risks associated with collaborative arrangements. There is also a need to know what questions to ask and what issues to consider when assessing these arrangements.

**What are collaborative arrangements?**

**5.17** For the purposes of this study, we are examining arrangements among autonomous organizations. These arrangements have the following features: common objectives tied to a public policy purpose, shared governance, and written agreements on governance and financing.

**5.18 Common objectives tied to a public policy purpose.** The collaborative arrangement reflects an involvement of the federal government as well as other parties in the lives of Canadians, within the legal framework approved by Parliament. In this context, the federal government and its partners pursue common objectives and results that have a public policy purpose.

**5.19 Shared governance.** The participating organizations share governance related to public policy as well as to the way in which the arrangement itself is governed. The process for making strategic decisions about collective activities is based on agreement by the participating organizations. They agree on the decisions that matter for the collaborative arrangement and that determine its future course of action. They also share the risks involved in those decisions. There is consultation among the organizations, so that decisions are not taken unilaterally. The way decision making is shared and to what extent will vary considerably with the type of arrangement.

**5.20 Written agreements on governance and financing.** The organizations need to recognize the importance of agreeing on ways to steer the collective effort, as well as the importance of controlling the use of resources. A variety of mechanisms and types of agreements may be used.

**5.21 Arrangements excluded from the study.** We have excluded the type of collaborative arrangement that involves only federal organizations. An example is the Federal Buildings Initiative, which Natural Resources Canada promotes to other federal departments to encourage comprehensive energy efficiency upgrades and retrofits in federal government facilities. While the issues facing collaborating federal organizations are significant and deserving of attention, they are not the same as those between the federal government and outside parties.

**5.22** Other arrangements not examined in this study include:

- contracting for goods and services, and related circumstances where an entity outside the federal government acts as its agent (such contracting may occur within a collaborative arrangement; however, if the relationship is limited to that of a contractor or agent, the opportunities for collaboration are likely limited because

the federal government specifies the terms and conditions that must be met);

- for the same reasons, traditional grants and contributions that do not involve collaboration; and
- arm's-length relationships — where organizations exercise independent authority to spend federal funds (for example, the Canada Foundation for Innovation).

### Focus of the study

**5.23** The objectives of the study were to examine the major issues related to effective participation in collaborative arrangements, identify desirable attributes of agreements and good implementation practices, and provide a framework for parliamentarians to assess the arrangements. A number of arrangements are presented as examples throughout the study; additional information about them can be found in the Appendix. Further details on the study are discussed at the end of the chapter in the section **About the Study**.

## Observations

### The Challenge of Collaborative Arrangements

**5.24** Building and maintaining collaborative arrangements is an alternative way of delivering government programs and services that requires the federal government to share program management and delivery with its partners. These arrangements require special effort and are not easily established or maintained. To a significant extent, they depend on the leadership shown by the key parties.

#### Ensuring effective leadership

**5.25** The basis for a collaborative arrangement is the accomplishment of

mutually beneficial tasks. Each participating organization expects that the arrangement will lead to better client service or other benefits to Canadians than it alone could provide. To this end, the arrangement needs leadership to create a vision of where the partners want the arrangement to go and to translate that vision into reality. The nature of the leadership needed will depend on the nature of the collaborative arrangement, the tasks to be done and the roles and responsibilities of the partners.

**5.26** The identification of leadership roles may be a challenge. It should not be assumed that the federal government will always take the lead, particularly when other levels of government are involved or a number of partners are contributing equally. Rather, leadership needs to be based on expertise and level of involvement, and established through action, commitment and working co-operatively with other partners.

**5.27** There are different levels and phases of leadership in a collaborative arrangement. Top-level political and bureaucratic leadership is often necessary to initiate an arrangement. These leaders need to demonstrate clear, consistent and visible commitment to the common objectives. Leadership at the level of program management is also essential. In addition, when more than one federal department is involved, a champion or leader in each department may be needed to take issues forward. Finally, to sustain the arrangement, buy-in and commitment are needed from front-line managers and staff.

**5.28** In some collaborative arrangements, the federal government does provide leadership. For example, in the National Action Program on Climate Change, the federal government indicated that it is committed to strong leadership to make sure that Canada stays on track to meet agreed targets (see Exhibit 5.1). In other cases, the commitment may be implied rather than stated explicitly. For

The arrangement needs leadership to create a vision of where the partners want to go and to translate that vision into reality.

Building and maintaining collaborative arrangements requires special effort that depends on the leadership shown by the key parties.

**Collaborative arrangements need to overcome many obstacles.**

instance, in initiating a program the federal government may assume a leadership role.

**Dealing with complex relationships**

**5.29** Collaborative arrangements need to overcome many obstacles, ranging from the complexity of the activity to differences of view among the partners. Each participating organization pursues goals related to its own interests as well as the common goals of the arrangement. In the case of governmental partners, different legislative mandates also apply. Different approaches to managing people may also complicate the relationships among the partners. The genuine need for a collaborative arrangement must be strong enough to overcome these obstacles.

**5.30** Cases such as climate change and the North American Waterfowl Management Plan illustrate the complexity of collaborative arrangements. Both involve other levels of government and the treaty power of the federal government. Partners in collaborative arrangements may be disparate organizations, including various levels of government, First Nations and private corporations. An example is the Canadian Model Forest Program.

**Co-ordinating efforts among partners and within the federal government**

**5.31** Experience suggests that establishing a co-ordination capacity makes the arrangement work better. A co-ordinator can be an organization, an individual or a body, such as a board or committee. The co-ordination capacity begins with a clear understanding of the autonomy of the participating organizations, thereby defining the scope for action for each party. Effective co-ordination then gradually improves performance by averting conflict, arbitrating differences and establishing priorities. It depends on good communication and on information systems aimed at voluntary compliance.

**5.32** We observed the use of secretariats as co-ordinators in a number of arrangements. An arm of a federal department may fulfil this role or, as in the Canada Infrastructure Works program, a joint federal-provincial body. Our 1996 audit of Phase I of that program found that federal-provincial relations were particularly positive in cases where jointly funded secretariats had been established (see Exhibit 5.2).

**5.33** The background to federal participation generally includes related program activity in one or more departments. The respective roles and responsibilities of those departments are

**Exhibit 5.1**

**Ensuring Effective Leadership in Climate Change**

Canada is a party to international agreements on climate change, and the federal government is involved in arrangements with the provincial and territorial governments to implement these agreements in reducing greenhouse gas emissions. The two key federal departments involved are Environment Canada and Natural Resources Canada; many activities of both departments support climate change initiatives. We reported on an audit of climate change in the 1998 Report of the Commissioner of the Environment and Sustainable Development.

Notwithstanding the federal government's commitment to provide strong leadership on climate change, our audit identified, as a key element in managing climate change commitments, the need to specify the leadership roles and responsibilities of all federal players as well as all levels of government. We found that the management structure did not adequately specify federal responsibilities. This has contributed to an implementation gap, with performance falling short of expectations.

The key federal departments report that since the release of our audit findings in May 1998, they are actively addressing these concerns.

sometimes not clear. The autonomy of a minister and his or her department from other ministers and departments may complicate an arrangement. Thus it is incumbent on those responsible for federal participation to be aware of related authorities and activities in other departments and to ensure a cohesive, consistent approach.

### Building trust and confidence

**5.34** The essence of collaboration is mutual trust and confidence among the parties to the arrangement. Little can be accomplished without it. Establishing trust and confidence depends on each party's belief that the other parties have the skills and resources to do the job. It also depends on commitment and on the good faith demonstrated in making and implementing agreements. The parties to the arrangement need to consult fully with each other and share in decision making to ensure that their interests are considered and, where possible, protected.

**5.35** We observed different approaches to building trust. In the Canada Infrastructure Works program, the division of responsibilities between the federal and provincial governments was based on the comparative expertise of each level of government. This approach contributed to positive relations between them. Implementing the Canadian Industry Program for Energy Conservation requires confidence in the capacity of the private sector, since private sector voluntary

targets are used in place of other policy instruments to attain program objectives.

## A Framework for Assessing Collaborative Arrangements

**5.36** We believe that the federal government needs to manage the risks of participation in a collaborative arrangement by focussing on serving the public interest, effective accountability and greater transparency.

- **Serving the public interest.** In providing programs and services to Canadians, there are always a number of parties whose interests are at play: the taxpayer, special interest groups, recipients of the programs and services and, in many collaborative arrangements, the private sector. As government and its partners pursue a public policy purpose, they need to balance competing interests and ensure that the public purpose and the need to provide transparent, fair and equitable service are not lost in the desire for greater efficiency.

- **Effective accountability arrangements.** In a collaborative arrangement, the federal government is accountable to the Canadian Parliament for the use of federal public funds and authorities, to its partners for delivering on its commitments and, with its partners, to the public for the results achieved.

- **Greater transparency.** Collaborative arrangements involving the

The essence of collaboration is mutual trust and confidence among the partners.

### Exhibit 5.2

Co-ordinating Efforts  
Among Partners – Canada  
Infrastructure Works  
Program, Phase I

This time-limited federal-provincial program was established in 1994 to assist in funding the maintenance and development of infrastructure, defined as physical capital assets instrumental in the provision of public services. The program involves a number of federal departments, with central co-ordination from the Treasury Board Secretariat. We audited Phase I of the program in 1996, and will report on Phase II later this year.

Federal-provincial secretariats were used as one means to co-ordinate delivery of the program. Our audit found that federal-provincial relations were particularly positive in Alberta and Manitoba, where jointly funded secretariats had been established. Among other things, these secretariats provided a focal point for contact and information, and permitted the development of joint operational databases.

Meeting the objective of greater efficiency should not compromise the objective of achieving the intended results.

federal government need to be as open as possible with information on the agreements, decisions, objectives, targets and achievements.

**5.37** For each of the three elements, we have identified what we believe are desirable attributes of agreements and good implementation practices, and have developed a series of questions that parliamentarians may wish to use as a framework for assessing collaborative arrangements. These questions are summarized in Exhibit 5.3.

### Serving the Public Interest

**5.38 Are objectives being met?** The use of a collaborative arrangement is usually linked to a desire for better, more affordable federal program and service delivery. Over time, the arrangement should achieve its intended results.

**5.39 Is serving the public interest being given appropriate emphasis?** A collaborative arrangement may enhance flexibility, cost effectiveness and citizen participation in program and service delivery. The federal government is constantly seeking more efficient ways to

deliver programs and services, such as arrangements with the private sector and through “single windows” — the use of common facilities with provincial governments. However, meeting this objective of greater efficiency should not compromise the objective of achieving the intended results. In addition, given the complexity of collaborative arrangements, care has to be taken in enhancing accountability.

**5.40** The suggested elements of a workable collaborative arrangement — enhancing accountability, improving efficiency and achieving results — tend to pull in different directions. The emphasis in setting up an arrangement should not be solely on greater efficiency or on meeting accountability requirements. Through agreement with its partners, the federal government needs to keep these factors in balance, and transparently so, while giving priority to achieving the results of the arrangement (see Exhibit 5.4).

**5.41 Are public service values being maintained?** Balancing the objectives of efficiency, effectiveness and accountability is not enough. In addition, the public interest needs to be kept in

#### Exhibit 5.3

#### Framework for Assessing Collaborative Arrangements – A Summary

##### Serving the Public Interest

- Are objectives being met?
- Is the collaborative arrangement the best way to do it?
- Is serving the public interest being given appropriate emphasis?
- Are public service values being maintained?

##### Effective Accountability Arrangements

- Are the objectives, the expected level of performance and results and the operating conditions agreed to and clear?
- Are the authorities, roles and responsibilities of each partner clear?
- Are the expectations for each partner balanced with its capacities?
- Can performance be measured and credibly reported to Parliament and the public?
- Has adequate provision been made for review, program evaluation and audit?

##### Greater Transparency

- Have the information needs of those affected been recognized?
- Is appropriate and sufficient information being disclosed to Parliament and the public?

view by assuring that services and benefits are delivered in a fair, impartial and equitable manner, in accordance with traditional public service values.

## Effective Accountability Arrangements

**5.42** In keeping with the principle of ministerial responsibility, a minister is accountable to Parliament for the involvement of a federal department or agency in a collaborative arrangement and, with partners, is accountable for the achievement of results.

**5.43** From our previous audits and studies of accountability arrangements, we have identified a set of key elements needed for strong accountability:

- clear and agreed expectations;
- clear roles and responsibilities;
- balanced expectations and capacities;
- credible reporting; and
- reasonable review, program evaluation and audit.

### Clear and agreed expectations

**5.44** Agreement in writing on the common objectives and public policy purposes, as well as on the key results sought in the arrangement, is critical to its success and a necessary first step in its

implementation. In addition, operational matters will need to be sorted out and agreed to. Although agreement on all these matters must ultimately be reached, not all of the specific details need to be finalized before beginning to implement the collaborative arrangement.

**5.45** A focus on the common outcomes being sought — particularly those seen as important to Canadians — rather than on specific outputs can be a powerful means of establishing and maintaining the collaboration. The efforts and steps taken to get the partners to agree on common objectives and results can be used to create understanding among the partners, sort out roles and responsibilities, encourage co-ordination, allow for flexibility in the specific contributions of different partners and build trust.

**5.46** **Are the common objectives agreed to?** The agreement should clearly describe the common objectives and purpose of the arrangement. Any statement of values, objectives, purpose or vision will serve as the basis for subsequent agreement on more specific results and performance measures. Without agreement on reasonably clear common objectives, the arrangement is unlikely to succeed.

**5.47** The parties may have different reasons for pursuing the common objectives. For example, in the North American Waterfowl Management Plan,

**A focus on common outcomes being sought can be a powerful means for establishing and maintaining collaboration.**



Exhibit 5.4

**Serving the Public Interest –  
Balancing Efficiency,  
Accountability and Results**

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**The partners need to agree on the results to be accomplished.**

duck hunters and bird watchers find common purpose in restoring waterfowl populations, albeit for very different reasons.

**5.48** Similarly, a private sector company pursuing a profit motive may find that its goal is compatible with the public interest, as expressed in the objectives sought through a collaborative arrangement. For example, the Canadian Industry Program for Energy Conservation encourages energy efficiency improvements that meet both public and private sector objectives.

**5.49** Initially, the parties may be able to agree only on a general statement of their common objectives, which may allow discussion on an arrangement to move forward. However, as they implement the arrangement and get to know each other, they need to reach agreement on more specific details concerning each partner's role and the results to be accomplished. An example in which partners first reached agreement on general principles is the National Child Benefit, as discussed in Chapter 6 of this Report (paragraph 6.42).

**5.50 Are the expected results clear?**

In addition to agreeing on the common objectives, it is important that the partners agree on the results to be accomplished. The partners need to be as specific as possible about these results in the initial agreement and, if necessary, ensure that they are fully specified in subsequent discussions or agreements.

**5.51** To implement a collaborative arrangement, the responsible parties need to know what to do and what results are expected. A strategic framework is often required, elaborating on or clarifying these expectations and guiding activities. For more complex multi-year arrangements, a planning function is needed.

**5.52** The partners also need to agree on the performance measures that will be used to assess what has been accomplished. This will reduce the chance of major disagreement in the future on whether the arrangement has been successful. Performance measures can range from quite specific quantitative indicators to more general qualitative statements of what would have to occur for the arrangement to be judged a success. For example, the North American Waterfowl Management Plan clearly stated and communicated the expected results to all partners, and the related performance measures were agreed upon and then used in periodic reviews of results (see Exhibit 5.5).

**5.53** In addition, the partners need to agree on what data are required, key definitions, and how the data will be collected to ensure their integrity.

**5.54 Are the operating principles and procedures to be followed clear and agreed to?** Each partner may be bound by legislative or administrative requirements related to certain aspects of the arrangement. For example, the federal government may want to make sure that specific decisions are made about the

**Exhibit 5.5**

**Agreement on Results –  
North American Waterfowl  
Management Plan**

The North American Waterfowl Management Plan (NAWMP) is designed to restore waterfowl populations through a North American partnership of federal, state and provincial/territorial government agencies, non-government organizations, the private sector and landowners. The Plan involves the Canadian Wildlife Service of Environment Canada, and was examined in Chapter 11 of our October 1997 Report (Moving toward Managing for Results).

The NAWMP clearly stated and communicated the expected results to all partners, in the form of quantified targets of wetland habitat to be protected and waterfowl populations to be achieved. Related performance measures were agreed upon; that is, the annual count of the various species of ducks, geese, etc., and the size of the area of wetlands made suitable as waterfowl habitat.

delivery of services in both official languages, access to information and adherence to appropriate public service values such as impartiality, fairness and equity. The partners need to decide in advance on the extent to which any such requirements are to be met.

**5.55 Have human resource management issues been addressed?**

Managing people well is crucial to success. Various issues may arise when employees of participating organizations work together in a collaborative arrangement. There may be a need to have their assignments allow for career development, for example. Assignments also need to be structured to avoid a conflict of duties. Where a proposed collaboration arrangement has human resource implications, these should be addressed early and openly with all potentially affected employees and their representatives.

**5.56** In federal-provincial arrangements, employees of one level of government may report to those of another. Clarity of these relationships will be required. As well, federal employees continue to be subject to federal legislation and policies and to maintaining their rights and benefits in areas such as collective bargaining, grievance and redress, employment equity and official languages.

**5.57** As part of the Treasury Board Secretariat's efforts to eliminate policy and legislative barriers, the federal government recently adopted a more flexible approach to human resource management in collaborative arrangements. This has been done through legislative changes that allow deputy ministers of departments to delegate the full range of human resource management authorities to non-federal managers.

**5.58 Has provision been made for adequate financial control?**

Collaborative arrangements generally use

federal public funds, public servants and other resources. The federal government is responsible for the stewardship of these resources. The other partners may also contribute significant resources, in some cases more than the federal government. Consequently, it is in the interest of all the partners to agree on sound procedures and practices for financial management and control, dealing with such things as different accounting methods and year-end carry-over provisions.

**5.59** In addition, agreements need to identify and minimize the risk of the federal government being held liable for amounts exceeding parliamentary appropriations. This can be done by explicitly documenting the mechanisms and conditions under which any losses would be shared or guaranteed, and by capping maximum federal exposure at levels of approved authorities.

**5.60** In striking an agreement that provides for adequate financial management systems and processes, the federal government needs to work with the other partners toward an appropriate standard of financial management, tailored to the nature and complexity of the arrangement.

**5.61** Phase I of the Canada Infrastructure Works program is an example of the arrangements that the federal government can make in agreement with its partners. In our audit of the program, we examined the basis on which federal officials had approved projects; we found that there was a need to improve financial control. In the program as a whole, insufficient provision had been made for compliance audits. However, federal program officials reached an agreement with the Quebec government department involved in the arrangement to set in place a system of compliance audits. In our judgment, this contributed to meeting the federal government's requirement for assurance of compliance with essential conditions of the program. Systems and process audits and reviews

Managing people well is crucial to success.

It is in the interest of all the partners to agree on sound procedures and practices for financial management and control.

**Clear roles and responsibilities are essential for accountability.**

were also undertaken in the four Western provinces.

**Clear roles and responsibilities**

**5.62 Are agreed roles and responsibilities clear?** Clear roles and responsibilities in written agreements need to be established from the outset and to reflect the interests and capabilities of each partner, as well as the common interests. They are essential to accountability. Accountability relationships in collaborative arrangements are sometimes referred to as “shared accountability”. This means that the partners are collectively accountable

for the success and operation of the arrangement, and hence share accountability (see Exhibit 5.6). In our view, shared accountability means only that more parties are accountable and in no way lessens the federal government’s accountability for its own responsibilities in the arrangement.

**5.63** The involvement of federal and other government partners may be based on legislation, which may limit their actions and activities. The legal, human resource and financial authorities need to be clearly identified, including the sharing or transfer of human, physical, financial or technological resources. Collaborative

**Exhibit 5.6**

**Shared Accountability**

Collaborative arrangements involve several partners who work together toward some shared common objectives. These partners are collectively accountable for its success and operation, and hence share accountability. Without care, however, this may result in a diffusion of accountability due to a lack of clarity about responsibilities and action taken.

In collaborative arrangements, there are three kinds of accountability relationships:

- accountability among the partners;
- accountability between each partner and its own governing body, such as, in the federal case, ministers and Parliament; and
- accountability to the public.

A collaborative arrangement involves an obligation of each partner to the other partners to fulfil and report back on its own part of the arrangement. Mechanisms are needed to ensure that this occurs and also that the collectivity can credibly report as a whole on its shared accomplishments.

The creation of the partnering arrangement does not reduce the accountability of the federal government to Parliament for the use of federal funds and authorities. Since the accountability relationships are more complex, the federal partner needs to ensure that the arrangement is structured so that there is an appropriate level of reporting back to ministers and Parliament.

Moreover, the federal government must take responsibility for managing toward the intended results through its actions and decisions in the arrangement.

In addition, the accountability elements of the arrangement must include provisions to ensure that the federal government can credibly demonstrate in a timely manner:

- the extent to which the objectives and expected results of the collaborative arrangement are being achieved;
- a reasonable assessment of the federal contribution to those results, namely to what extent it has made a difference; and
- what has been learned through the arrangement.

Hence, in a shared accountability arrangement the federal partner still has quite specific responsibilities and requirements, as do all the partners. To be able to account for the elements described above, the federal partner is responsible for organizing and managing the relationships with its partners so that it can obtain necessary information, monitor results and make (or require) adjustments as needed.

arrangements may also involve the delegation of authorities and the transfer of resources from the federal government to other (usually governmental) partners or to individuals or bodies representing the collectivity. In such cases, the nature of the transfer needs to be clearly specified and publicly disclosed.

**5.64** Labour Market Development Agreements illustrate the accountability relationships in collaborative arrangements involving the federal government with other levels of government (see Exhibit 5.7).

**5.65** Other collaborative arrangements use contribution agreements as a financing mechanism. While these agreements may include management and co-ordination provisions, their purpose is to ensure that payment of federal funds is conditional on performance and on compliance with the program. There is a need to also provide federal departments in collaborative arrangements with guidance on how to use contribution agreements to manage the sharing of power and authority in decision making. For example, in our 1996 audit of Phase I of the Canada Infrastructure Works program, which is a contributions program, we found that federal-provincial agreements contained management and co-ordination provisions but did not clearly identify roles and responsibilities for providing monitoring and performance information. Consequently, the federal government did not have adequate

information for accountability and program implementation.

**5.66** Have adequate decision-making processes been established? The extent to which decision rules need to be formally specified in the agreement will depend on the nature of the arrangement. For diverse organizations, a wide range of rules may be required, encompassing membership, participation, the make-up of decision-making bodies and the conduct of business. Where the parties are closely aligned, the decision process may rely on a more informal but still clear understanding. In the case of the federal government, the roles and responsibilities of ministers, or senior public officials acting for ministers, need to be clearly delineated.

**5.67** As noted in paragraph 5.33, effective co-ordination is needed in order to clarify roles and responsibilities when multiple departments are involved. The solution may lie in designating a lead department, the involvement of a central agency or establishing a specific management structure.

**5.68** Through the management structure, decision rules are implemented, the necessary steering and working committees are established, and the involvement of ministers, senior public servants and those appointed as officers of the arrangement is specified. The management structure of the arrangement should fit with the management structures of the participating organizations and

#### Exhibit 5.7

#### Accountability Relationships – Labour Market Development Agreements

Labour Market Development Agreements, signed or under negotiation with all of the provinces and both territories, involve various forms of shared delivery of federal, provincial and territorial labour market services to the public.

Some jurisdictions have chosen co-management with the federal government; others have opted to receive full transfer of federal responsibilities. The Agreements include accountability provisions, with respect to objectives, expected results, performance measurement, monitoring and reporting. For example, the Canada-Alberta Labour Market Development Agreement establishes measures (indicators) and targets for expected results, and requirements for program evaluation and reporting on results.

Adequate provision for reporting of overall results is also essential for accountability.

include the mechanisms needed to co-ordinate efforts and resolve problems.

**5.69** We observed a variety of management structures, including boards of directors and management committees supported by subcommittees and sometimes a secretariat. In some cases, the parties adopt a constitution or charter — for example, in the Canadian Model Forest Program (see Exhibit 5.8). In other cases, terms of reference specify the roles of committees and related decision-making structures. In our audits of climate change and Phase I of the Canada Infrastructure Works program, we found that the management structures did not adequately specify federal responsibilities.

#### Balanced expectations and capacities

**5.70 Have the partners the capability to do what they expect?** The partners form expectations about what each will do, and what they will do together, to advance the common agenda. A balance needs to be struck between these expectations and the capacity of each partner to deliver. The partners need to assess each other's competence and

experience. Expectations should be based on an accurate appreciation of capacities, including authorities, skills and resources. In some cases, the abilities and capacities of those delivering key elements of a program or service may need to be strengthened and the additional cost of this recognized.

**5.71** The National Child Benefit provides an example of the need for such a balance, as discussed in Chapter 6 of this Report (paragraph 6.59). If the smaller partners in the National Child Benefit lack the capacity to obtain accurate and relevant data on program outcomes, and to verify the data, then the federal government or larger provinces could work with the partners, if asked, to help them build capacity.

#### Credible reporting

**5.72** Adequate provision for reporting in agreements, leading to credible and timely reporting of plans, activities and overall results, is essential for accountability in a collaborative arrangement.

**5.73 Is provision made for adequate reporting?** In a collaborative arrangement, the partners report to each

#### Exhibit 5.8

##### Decision Making, Financial Control and Review – Canadian Model Forest Program

The Canadian Model Forest Program is a national network of large-scale working models of sustainable forest management. These models are designed to expand the range of forest uses and the benefits, in keeping with the principles of sustainable development. The Canadian Forest Service of Natural Resources Canada established the Program in 1992. We audited it in 1993 and did a follow-up in 1995.

In the Eastern Ontario Model Forest (EOMF), for example, an agreement, a constitution and by-laws define the roles and responsibilities of the federal government and the other partners. The constitution sets out a management structure, including the appointment and powers of a board of directors and officers.

Each model forest produces an annual report. Control over public funds is exercised through a requirement for audited annual financial statements, oversight of expenditures by the board, and provisions for progress reports and inspection of records in subagreements between the particular model forest and other partners.

Review and adjustment occurs through the board's exercise of its responsibility to monitor progress and report on corrective measures, and through a requirement for program evaluation. A strategic plan reported on the accomplishments of the first phase of the EOMF and was used to set out goals and strategies for the next phase.

other and to their respective governing bodies, both individually and collectively; they also report to those affected by the arrangement. In an agreement, a statement of the reporting required is essential for effective accountability to the governing bodies, as well as for management and co-ordination purposes. The agreement should normally refer to such reporting vehicles as business plans, corporate reports, or reports to Parliament and to provincial and territorial legislatures.

**5.74** We observed many forms of reporting in collaborative arrangements, including annual reports issued by organizations outside the federal government. In some cases, these reports provide performance information. Where collaborative arrangements have been established to move program and service delivery closer to those directly affected, reporting to the public and to the community fulfils an accountability obligation. We suggest that the reporting regime ought to serve accountability to the community affected, to the applicable minister(s) and, through the minister(s), to Parliament. It is also important that the federal government work with its partners to ensure that the information needed for good reporting is provided on a timely basis, so that decision makers can make effective use of it.

**5.75 Is information for Parliament sufficient?** We noted in a number of cases

that reporting by collaborative arrangements is not addressed or referenced in the established performance reporting systems of government, particularly those for reporting to Parliament. For example, private sector partners may make an annual report public and provide it to the minister who answers in Parliament for the federal department involved. This practice is followed for the annual report of the Canadian Industry Program for Energy Conservation (see Exhibit 5.9). To ensure that all such reports are brought to the attention of Parliament, we believe that they need to be clearly referenced in the responsible department's Estimates documents. These documents are the Reports on Plans and Priorities and departmental Performance Reports, and there are established procedures allowing parliamentary committees to examine them.

**5.76 Is the reporting credible?** In Chapter 5 of our April 1997 Report, we suggested a number of desirable features for performance reports on what has been accomplished:

- **Clear context and strategies.** The report should clearly describe the mission and mandate of the organization, the objectives of its programs and services, the major strategies and resources being used to achieve these objectives and the related external context.
- **Meaningful performance expectations.** The report should contain

The Canadian Industry Program for Energy Conservation (CIPEC), established in 1975, is a voluntary initiative of Canada's manufacturing and mining industries aimed at reducing energy use. Natural Resources Canada developed a partnership with CIPEC to encourage energy efficiency improvements through voluntary programs in industry. We reported on our audit of energy efficiency measures in that Department in our April 1997 Report.

CIPEC co-ordinates the development of energy efficiency goals (annual targets), action plans and services for each industrial sector through a network of task forces. A task force council works in close co-ordination with Natural Resources Canada, and is supported by a secretariat in the Department.

An annual report contains information on improvements in energy efficiency, based on a system developed to monitor and report on industry's progress toward its targets. This report is provided to the Minister of Natural Resources.

#### Exhibit 5.9

#### Decision Making and Reporting – Canadian Industry Program for Energy Conservation

**The partners need to agree on a mechanism to monitor progress and evaluate performance and results.**

clear and concrete key performance expectations with a focus on outcome-results.

- **Results reported against expectations.** Key results should be reported in relation to expectations and be attributable to the activities undertaken.
- **Demonstrated capacity to learn and adapt.** The report should provide a measure of the ability of the program to learn from past performance and to adapt to external changes.
- **Fair and reliable performance information.** Performance information should be fair, valid, reliable and understandable.

**5.77** In collaborative arrangements, credible performance reporting will often depend on information that the partners provide to each other. Partners will need to both seek assurance that the information provided by others is based on good data and provide such assurances themselves.

**5.78** External audit assurance can enhance the credibility of reports on results by examining the consistency, reliability and fairness of the partners' performance information.

**Reasonable review, program evaluation and audit**

**5.79** **Has provision been made for reasonable internal audit and program evaluation?** The partners need to agree on a mechanism to monitor the progress of collective activities and evaluate performance and results. The federal government's use of internal audit and program evaluation may constitute such a mechanism. Requirements for audit and evaluation, including their reporting, can be set out in contribution agreements and memoranda of understanding between partners in the collaborative arrangement.

**5.80** As we noted in our May 1996 Report Chapter 3 on program evaluation, evaluation studies have the potential to:

- provide information to support decisions about resource allocation;
- help Canadians determine the value obtained with their tax dollars; and
- help public servants and their collaborative partners manage for results and take responsibility for them.

**5.81** For example, as discussed in Chapter 6 of this Report (paragraph 6.105), the partners in the Employability Assistance for People with Disabilities have agreed to co-ordinate the planning process and to evaluate program results.

**5.82** **Is sufficient monitoring under way?** Monitoring is increasingly recognized as an integral part of sound management. Program managers gather and analyze information that will allow them to gauge progress toward objectives and adjust program planning and implementation. In a collaborative arrangement, a realistic and effective monitoring strategy is required that takes into account:

- the nature of the arrangement, such as the historical relationship between the partners, the level of innovation involved and the complexity of the arrangement;
- the level of political or financial risk associated with the program and the arrangement;
- the specific accountability requirements for each partner;
- the capacity of the partners to monitor performance;
- the type and level of delegation to each partner (for example, if program delivery has been delegated to a partner, monitoring also can be delegated. The federal government could work with its partners to ensure that the monitoring takes place and results are reviewed); and

- the monitoring already undertaken by the partners (as much as possible, monitoring systems and information should be shared to avoid duplication and promote efficiencies).

**5.83 Is sufficient learning taking place?** The accountability relationship is meant to be a positive one that the participating organizations can use to improve performance — their own as well as that of the arrangement as a whole. For instance, if the agreement specifies mechanisms to review performance and calls for institutional learning, the partners have to make this work in practice. If expectations are clearly not being met, corrective actions need to be taken. The co-ordination process needs to accommodate such adjustments.

**5.84 Are procedures in place to follow if things go wrong?** It is important that agreements include specific procedures, such as dispute resolution mechanisms, that each party can follow should things go wrong. These procedures may include reference to independent bodies to assess cases of disagreement, and ultimately should provide ways to terminate the arrangement if necessary. Provisions for termination also need to ensure that public funds and assets, including the sale of any public assets, are safeguarded.

**5.85 Has provision been made for audit?** The parties need to agree on appropriate provisions for external audit of the arrangement. A requirement for financial audit is often recognized in collaborative arrangements, but given that there are public purposes involved, value-for-money audits and independent assessment of performance information may be needed. The question of who should do the audits also needs to be determined. In the case of federal-provincial arrangements, this Office recognizes the value of working jointly with provincial audit offices in audits of program delivery.

## Greater Transparency

**5.86** It is important that government ensure appropriate transparency in the delivery of services to the public. Delivering services by collaborative arrangements often requires greater transparency than traditional delivery by government departments. There are several reasons for this:

- The involvement of several different partners may make it difficult for citizens to know who is responsible for doing what, unless extra care is taken to communicate such information.
- Where citizens now have to deal with service providers outside government, access to redress mechanisms may not be evident. Citizens may not have the same recourse to the minister and members of Parliament in these cases.
- The provisions of the *Access to Information Act* that apply to the federal government may not extend to partnering organizations, limiting the information made available unless the arrangement specifically addresses the issue. The partners may need to reconcile access to information and privacy laws of different jurisdictions.

### **5.87 Are the information needs of the affected public recognized?**

Collaborative arrangements delivering public programs often provide information about their activities to the communities directly affected as well as to the general public. This form of transparency complements the responsibility of the federal government and the other partners to make adequate information available to Parliament and the public. For example, the Labour Market Development Agreements and reports are available for public scrutiny.

### **5.88 Is sufficient information being disclosed to Parliament and the public?**

Information about a collaborative arrangement ought to be made available to Parliament, the public, and the respective

The use of collaborative arrangements to deliver services to the public often requires greater transparency than traditional means.

Information about collaborative arrangements ought to be made available to Parliament and the public.

legislative and governance bodies, with the exception of sensitive and personal information.

**5.89** In addition to the agreements themselves and the reports they produce, the information made public should include:

- major decisions and activities that affect specific groups;
- related documents such as non-commercially confidential board or management committee papers; and
- statements of policies and practices, encompassing conflict of interest rules, limits on confidentiality and complaint and redress mechanisms.

**5.90** It is important that a collaborative arrangement not be used to reduce transparency. The principles supporting the intent of the *Access to Information Act* need to be recognized in setting up a collaborative arrangement. The responsible parties are pursuing a public purpose and therefore have a responsibility to be as open as possible about their decisions and actions. They should give reasons for their decisions and restrict information only when necessary.

**5.91** Part of the commitment to greater transparency is consultation with the public. It is important to ensure that the goals sought and the results obtained in a collaborative arrangement are the right ones for Canadians. To this end, the partners need to seek out the views of target groups, stakeholders and the general public.

**5.92** Successful collaborative arrangements also depend on transparent relations among partners. A wide range of information on such aspects as goals, reporting relationships, resources and the results being achieved needs to be made available among the partners, to build and maintain trust and to enable the necessary co-ordination to take place.

## Conclusion

**5.93** As more taxpayer dollars are being spent through collaborative arrangements, the associated risks require greater attention. These include the risk of poorly defined arrangements, commitments not met, insufficient attention to protecting the public interest, insufficient transparency and inadequate accountability.

**5.94** In recognition of the need to manage these risks, this study examined a number of issues related to effective participation in collaborative arrangements. In serving the public interest, the federal government must ensure that its public purpose is not lost in the desire for greater efficiency. Effective accountability means that the government remains accountable to Parliament for the use of public funds and authorities but also shares with its partners accountability to the public for results. Transparency calls for the federal government to be as open as possible about the arrangements it enters into with partners.

**5.95** The study identified a number of desirable attributes of agreements in a collaborative arrangement. The partners need to be very clear about the results expected for the common objectives, about roles and responsibilities, and about provisions for reporting, evaluation and audit. Operating procedures also need to be set out, including those for human resource management and financial control.

**5.96** It is important that these attributes of agreements be complemented by good implementation practices. In addition to setting out provisions in an agreement for reporting, the federal government and its partners need to ensure that performance reports credibly describe the results accomplished and attribute them to the resources used and the actions taken.

**5.97** This chapter points to the need for federal departments to effectively manage their involvement in collaborative arrangements. The Treasury Board Secretariat and departments have an important role in providing advice and guidance on these management issues. In addition, there is a need for all of those involved in collaborative arrangements to learn from the experience. For our part, we plan to report on an audit of federal government involvement in collaborative

arrangements and new arm's length relationships.

**5.98** The desirable attributes of agreements and the good implementation practices our study identified led to a series of questions that we suggest as a framework parliamentarians may wish to use to assess collaborative arrangements. As further experience is gained with collaborative arrangements, we expect to be able to refine this framework.



## About the Study

### Objectives

The objectives of the study were to examine the major issues related to effective participation in collaborative arrangements, identify desirable attributes of agreements and good implementation practices, and provide a framework for parliamentarians to assess the arrangements. As experience is gained with collaborative arrangements, we expect to refine and improve this framework.

### Scope

To carry out this study, we drew upon related audits and studies carried out by this Office, reviewed the relevant academic literature and conducted selected casework relating to federal involvement with other levels of government, the private sector and other organizations. We also made use of the following documents:

- Modernizing Accountability Practices in the Public Sector, 1998 – a joint paper by Treasury Board Secretariat and Office of the Auditor General of Canada.  
([http://www.tbs-sct.gc.ca/rma/account/OAGTBS\\_E.html](http://www.tbs-sct.gc.ca/rma/account/OAGTBS_E.html))
- Assessing Alternative Service Delivery Arrangements, June 1998 – an Office of the Auditor General of Canada discussion paper provided to the Standing Committee on Public Accounts.  
([http://www.oag-bvg.gc.ca/domino/other.nsf/html/dispr\\_e.html](http://www.oag-bvg.gc.ca/domino/other.nsf/html/dispr_e.html))

In this study, we did not compare practices against a predetermined set of criteria. Rather, we identified a series of questions that parliamentarians may wish to use as a framework for assessing collaborative arrangements.

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## Appendix

### Collaborative Arrangements Referred to in the Study

| Arrangement                                       | Key Federal Departments Involved  | Partners  | Information on the Federal Contribution  |
|---|---|---|--|
| Canada Infrastructure Works program, Phase I      | <ul style="list-style-type: none"> <li>Treasury Board Secretariat</li> <li>Industry Canada</li> <li>Atlantic Canada Opportunities Agency</li> <li>Western Economic Diversification Canada</li> <li>Economic Development Agency for the Regions of Quebec</li> <li>Indian and Northern Affairs Canada</li> </ul> | Federal, provincial and local governments, private sector.  | 1994–95 to 1998–99: \$2 billion  |
| Canadian Industry Program for Energy Conservation | Natural Resources Canada  | Federal and provincial governments, and private sector.   | 1992–93 to 1997–98: \$3.3 million  |
| Canadian Model Forest Program                     | Natural Resources Canada  | Federal, provincial and local government, educational institutions, industry, Aboriginal groups, community and public interest groups, recreationalists, and many others. | 1991–1996: \$54 million<br>1996–97: \$13.5 million   |
| Climate Change                                    | <ul style="list-style-type: none"> <li>Environment Canada</li> <li>Natural Resources Canada</li> </ul>  | Federal government (through international agreements) provincial and territorial governments.   | 1996–97: \$72 million<br>1997 Budget: additional \$20 million per year for three years – energy efficiency and renewables incentives.<br>1998 Budget: additional \$50 million per year for three years – program elements related to a National Implementation Strategy. |
| Labour Market Development Agreements              | Human Resources Development Canada  | Federal, provincial and territorial governments.  | <b>Examples:</b><br><b>Canada-Alberta</b><br>1997–98: \$97.5 million<br>1998–99: \$107.5 million<br>1999–2000: \$112.1 million<br><b>Canada-Manitoba</b><br>1997–98: \$46.3 million<br>1998–99: \$48.7 million<br>1999–2000: \$49.5 million                              |
| North American Waterfowl Management Plan          | Environment Canada  | Canadian, United States, Mexican federal and provincial or state governments, non-governmental organizations, private sector and landowners.                              | 1986–96: \$59 million<br>1996: \$5.1 million   |



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**Chapter 6**  
Human Resources Development Canada –  
Accountability for Shared Social Programs:  
National Child Benefit and Employability Assistance  
for People with Disabilities

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**April 1999**

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## Chapter 6

**Human Resources Development  
Canada — Accountability for  
Shared Social Programs**

National Child Benefit and  
Employability Assistance for People  
with Disabilities



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# Human Resources Development Canada — Accountability for Shared Social Programs

## National Child Benefit and Employability Assistance for People with Disabilities

### Main Points

#### National Child Benefit

**6.1** The National Child Benefit (NCB) represents a new form of collaborative arrangement between provinces (except Quebec) and territories and the federal government. A key challenge for all involved is to assure taxpayers that moneys are spent for the purposes intended, with due regard to economy and efficiency and with appropriate means to measure and report on effectiveness. Because there are many governments involved, it is also necessary to respect the jurisdictional competence of the different parties. As the NCB is implemented it is critical that, at a minimum, there be no less accountability because it is shared than if only one jurisdiction were involved.

#### Background and other observations

**6.2** The goal of the National Child Benefit is to reduce the depth of poverty among families with children and to increase parental attachment to the work force. The NCB involves no new law, contract, or contribution agreement, but rather an increased federal child tax benefit (the NCB supplement) for low-income families — about \$850 million in 1998, rising to \$1.7 billion by 2000. In turn, jurisdictions providing social assistance benefits to families may reduce their payments by the amount of the increased tax benefit. They have agreed to reinvest these savings in programs that have mutually agreed-upon objectives and that benefit poor families with children.

**6.3** One of the clear achievements of the negotiations leading to the NCB was the partners' agreement on the overall goals of both the federal and the provincial elements of the program. They also have committed to a new kind of joint accountability to the public. What is distinctive about this commitment is that no level of government is more responsible for reporting on the results than another. Each is accountable for the overall program.

**6.4** It will be a significant challenge in the first few years, before evaluation results are available, to demonstrate precisely how the National Child Benefit has contributed to reduced depth of poverty and increased employment among its recipients. In assessing progress, the NCB accountability report will also need to be clear about any trade-offs among goals and to discuss the implications. Otherwise, readers may expect that all goals can be achieved at the same time.

**6.5** There are potential gaps in the quality of financial and other information. The credibility of the accountability reports depends on the comparability, accuracy and verifiability of information from all parties — not only those who negotiated the arrangement (provinces, territories and the federal government) but also those who are responsible for designing and implementing only specific sub-programs (Ontario municipalities and First Nations). This is also a challenge for audit offices that serve the partners in this arrangement.

**6.6** We think the key ingredients in reporting the NCB's results to the public are transparency and adequacy of the information. This means:

- appropriate care is taken to ensure that the information is credible and, at least for financial information, subject to audit;
- data are adequate to determine if the program's overall goals are being achieved; and
- data are sufficiently comparable that outcomes of different provincial approaches can be compared.

It must also be clear whose responsibility it is to do all this, and who will provide assurance that it has been done. Moreover, those charged with the responsibility must have the capacity to undertake the task.

**The Department has said that this chapter will be of considerable assistance in its work to build an accountability regime for the NCB. Some issues are already being addressed. The remaining issues identified in this study will be raised by the federal government in its capacity as co-chair of the federal-provincial-territorial group working on the NCB.**

## Employability Assistance for People with Disabilities

**6.7** Employability Assistance for People with Disabilities (EAPD) is the other program to emerge from federal-provincial discussions in 1997–98 on the social union. The aim of this 50–50 cost-shared arrangement is to help people with disabilities overcome the barriers they face in the labour force. EAPD supports provincial and territorial programs and services ranging from programs that assist in the first steps toward developing skills to those that support a person at work so the person can keep working. Our interest in the program at this early juncture is that steps be taken to ensure that the information each partner will provide on its own expenditures and programs is credible, and permits comparisons of different approaches and assessments of the overall program's effectiveness.

### Background and other observations

**6.8** Each province has signed an agreement with the federal government. Taken together, the agreements illustrate several of the elements of a collaborative arrangement discussed in Chapter 5 of this Report. For instance, the governments agree to follow a co-ordinated, participative planning process and to evaluate program results.

**6.9** Human Resources Development Canada (HRDC) and provincial partners have set about to solve implementation issues in a collaborative fashion. For example, the provinces have committed to annual accountability to HRDC. However, so far there is no specific commitment to the format, substance, or timing of any overall annual report, nor are there specific goals or targets over any time frame. We recommend that HRDC prepare a brief overall annual report for EAPD, comparing activities, expenditures, program outputs and performance of the partners.

**6.10** The partners still have important work to do. When so many jurisdictions are involved, those with oversight and audit responsibilities face the challenge of helping to ensure that the quality of financial and performance reporting is maintained and enhanced.

**The Department has said that the case study will be useful in its work with provinces. It agrees in principle with the recommendation to produce an overall annual report on EAPD expenditures and performance. It pointed out that it will be important to note that EAPD is only one part of overall programming for people with disabilities.**

## Preface

*The federal government's role in Canada's social programs has undergone important changes over the last few years. Recently, it has agreed with nine provinces and two territories on a framework for new types of arrangements in a social union. Citizens, legislative bodies and, thus, audit offices may justifiably seek assurance that these new arrangements increase, or at least do not diminish, accountability for expenditures on shared social programs and their outcomes.*

*This chapter looks at the challenges for accountability that characterize the two recently implemented social programs that are already part of the social union: the National Child Benefit and Employability Assistance for People with Disabilities.*

### The case studies

**6.11** The National Child Benefit (NCB) is an innovative arrangement that combines federal tax expenditures and provincial programs. The aim is to reduce the depth of poverty in families with children, with a particular emphasis on providing incentives for low-income parents to enter and remain in the work force. Provincial premiers and the Prime Minister have referred to the NCB as a positive example of how social programs can be delivered collaboratively in a social union.

**6.12** Employability Assistance for Persons with Disabilities (EAPD) is also cited as an example of a social union program. It is a relatively more traditional form of federal cost-sharing in provincially delivered programs. Its aim is to help people with disabilities overcome the barriers they face in the work force by helping them to prepare for, obtain and maintain employment.

### Challenges for accountability are great

**6.13** Accountability has been a key element for designers of both programs. In official statements, all partners have made a commitment to account for the expenditure of funds and for the outcomes. In the case of the National Child Benefit, territories, provinces (except Quebec) and the federal

government have committed to an annual joint accountability report and, eventually, to evaluations of the program. This is the first joint report of its kind, due in the spring of 1999.

**6.14** For EAPD, provinces have committed in bilateral agreements to publish reports annually starting in 1999–2000. They have also agreed to share and make public the results of evaluations and to conduct a review of the arrangement at the end of its third year, in 2001.

**6.15** Notwithstanding these commitments, it is not clear exactly how accountability for overall results of these programs will be achieved. An important question for this Office is, How should the Auditor General, in fulfilling his obligations to Parliament, look at programs that are not fully federal? Our Office clearly has an interest in arrangements that use federal resources. Parliament expects us to cover such arrangements in our work and to report on them (see Appendix A). Since all levels of government agree on the need to be accountable to citizens and legislatures for these programs, our task is simply to assist in this endeavour. The case studies in this chapter show that there is no single best approach to demonstrating accountability, but there are some basic principles that can usefully be followed.

All levels of government have committed to accountability but the question is, How will this be accomplished?

The initiatives emerged from collaborations among provincial premiers.

By 1997, the National Child Benefit was seen as a model for future social programs in Canada.

### Canada's approach to social programs is changing

**6.16** Both the National Child Benefit and Employability Assistance for People with Disabilities can best be understood in the context of the ongoing federal-provincial collaboration that produced them. Although they are now referred to as examples of the “social union”, they were negotiated separately and not as part of any overall framework. The initiatives emerged from several interprovincial and federal-provincial-territorial meetings, conferences, councils, working groups and committees. Although decisions taken in such forums do not have the force of law, they impact directly on social program design and expenditure.

**6.17 Annual Premiers' Conferences.** Each summer, premiers meet at Annual Premiers' Conferences to discuss matters of mutual interest without federal government participation. At the 1995 Premiers' Conference, after major cuts in federal transfers to provinces had been announced, premiers reiterated their desire to work together on national matters affecting areas of provincial jurisdiction and to speak with a common voice in the national debate on social policy reform.

**6.18 Ministerial social policy councils.** In 1995, premiers formed a Ministerial Council on Social Policy Renewal to deal specifically with social policy issues. At the 1996 Premiers' Conference, they invited the federal government to join them in establishing a reconstituted Federal-Provincial-Territorial Council on Social Policy Renewal to advance the agenda of collaboration. This Council oversees social policy initiatives involving more than one department. In November 1996, it agreed that its first priorities were an integrated child benefit and improved services to persons with disabilities. The overall goals of co-operation were to reduce duplication and renew the social safety net.

**6.19 First Ministers' Meetings.** All premiers and the Prime Minister attend First Ministers' Meetings. In 1996, First Ministers began to discuss a collaborative and accountable approach to Canada's social programs. In communiqués, they referred to the National Child Benefit as part of a broader National Children's Agenda. They cited child poverty and persons with disabilities as collective priorities. The 1997 Speech from the Throne referred to the agreement among all levels of government to “work together to develop this broader agenda for children, including clear outcome measures by which to gauge success.”

**6.20** At the First Ministers' Meeting in December 1997, they reiterated the need to negotiate “a set of principles for social policy, such as mobility and monitoring social policy outcomes.” They affirmed the National Child Benefit as a possible model for future social programs; the federal government would increase the Canada Child Tax Benefit, while provinces would use their resulting savings in welfare expenditures to undertake programs consistent with mutually agreed-upon goals. They also requested that social services ministers conclude the development of a vision statement and national framework for assistance to persons with disabilities.

**6.21 Ministers Responsible for Social Services.** After the 1996 First Ministers' Meeting, the task of program design for the National Child Benefit and Employability Assistance for People with Disabilities had been assigned to Ministers Responsible for Social Services. This group had many of the same members as the Council on Social Policy Renewal. In face to face meetings and through electronic communication, federal-provincial-territorial ministers and their public servants set about to design the NCB and EAPD.

**6.22 Working groups of public servants.** Officials were organized into the NCB Working Group and the EAPD

Working Group. Each group was co-chaired by a provincial and a federal official. There were also sub-groups to work on specific issues. While Human Resources Development Canada (HRDC) had lead responsibility at the federal level, the Department of Finance, Revenue Canada, Indian and Northern Affairs Canada and Health Canada were all represented. The groups reported to Ministers Responsible for Social Services and to the Council on Social Policy Renewal. Each member also reported to his or her superiors and minister.

**6.23 Public consultation.** Most of the ministerial meetings also had a public component: the decisions that ministers wished to make public were announced through press releases, interviews, and postings to the Internet ([http://socialunion.gc.ca/menu\\_e.html](http://socialunion.gc.ca/menu_e.html)). As well, the groups and their ministers received input from a variety of formal and informal consultations with experts, advocates for the poor and the disabled, and other non-governmental organizations.

### Quebec's policies are consistent, even if not formally aligned

**6.24** Quebec's general position has been that all federal funding for social programs should be transferred directly to Quebec. It has nevertheless negotiated an agreement on EAPD. For the NCB, Quebec wanted to develop its program proposals according to its own priorities and timetable. Notwithstanding its concerns, Quebec representatives have participated as observers at ministerial meetings that discussed both programs, at the Council on Social Policy Renewal and on most of the working groups of officials. Quebec residents receive the Canada Child Tax Benefit on the same terms as all other residents of Canada. As well,

Quebec has introduced several programs for children that would very likely have qualified as part of the NCB program. Indeed, programs for children in Quebec are generally aimed at reducing child poverty and increasing incentives for greater parental attachment to the work force, the same aims as the National Child Benefit's. The most significant difference is that as long as Quebec remains a non-participant, its programs for children will not be included in the joint accountability report on the National Child Benefit.

### Focus of the study

**6.25** The two programs we studied represent a situation where a federal department is involved in program delivery but does not have sole responsibility, and where new kinds of accountability arrangements define relationships between governments. Our purpose in studying the NCB and EAPD was to arrive at answers to the following questions:

- How can credible reporting on these two programs best be achieved?
- What are realistic expectations for measuring the program outcomes?
- Are there information gaps that will need to be filled?

**6.26** In approaching these questions, we focus primarily on the accountability reports that will be published annually for each program. It is through these reports that readers will be able to assess the programs and how well the federal government and its partners have fulfilled their joint commitment to accountability. The case studies also illustrate and draw on Chapter 5 of this Report, where we suggest a framework for parliamentarians to use in assessing collaborative arrangements.

A major challenge for both shared arrangements is how to achieve credible reporting of overall results.

Our study was undertaken at an early stage to help achieve appropriate arrangements.

**6.27** Appropriate accountability arrangements must include the provision of relevant, verifiable information to parliamentarians and others to assess whether funds have been spent for approved purposes and expected outcomes have been achieved. Providing such information when many partners are involved is not an easy task. We believe that making some general suggestions while the accountability arrangements are still being implemented will help achieve appropriate arrangements in a timely fashion.

**6.28** Further details on our approach to the case studies can be found in **About the Study** at the end of the chapter. Appendix A contains information on our earlier work that addressed related issues in HRDC, more general issues of performance measurement and the quality of provincial accountability information in a federal-provincial context. Appendix B provides historical context for the NCB. Appendix C compares the two programs.

## The National Child Benefit

### Introduction

**6.29** The National Child Benefit (NCB) combines two significant trends of the last 20 years — the trend toward delivery of social programs through tax benefits and the trend toward shared initiatives negotiated with provinces and territories. It is innovative in that federal tax benefits and provincial programs together aim to achieve mutual objectives.

**6.30** Another important feature of the NCB is that all participants have committed to joint public reporting on the program and on the extent to which it is achieving its intended outcomes. What is distinctive about this commitment is that no level of government is more responsible than another for reporting on the results. All are responsible for the overall product. We believe that this is the first time this kind of co-operative effort has been undertaken in Canada.

**6.31** The case study sought to:

- help develop an awareness of what has been achieved so far with the National Child Benefit, and of the factors that may delay or constrain the establishment of appropriate accountability arrangements and credible measurement of results; and
- assist the reader of the annual “public accountability reports” by discussing what can reasonably be expected from them.

#### NCB supplement: The federal contribution

**6.32** In the first phase of the NCB, the federal government’s annual financial commitment is \$850 million beginning in 1998. This includes \$250 million announced in the 1996 Budget and \$600 million announced in the 1997 Budget to supplement the Canada Child Tax Benefit (CCTB). In the 1998 Budget,

the federal government announced that it would provide an additional \$425 million in 1999 and another \$425 million in 2000, bringing its total contribution to \$1.7 billion per year beginning in 2000–01. This commitment was reaffirmed in the 1999 Budget.

**6.33** The federal contribution to the NCB is an estimate based on economic models and Revenue Canada data. The amounts of the NCB supplement that will actually be paid depend on family incomes in the previous year. We did not verify the models, and it is too early to know if they have correctly anticipated total levels of benefits. Variances could also occur because of economic and labour market changes.

**6.34** Although millions of non-poor families receive the base Canada Child Tax Benefit, only low-income families benefit from the NCB supplement. This supplement is being introduced over several years. In 1997 the Working Income Supplement benefit to working poor families was restructured from a flat \$500 per family to a per child basis: \$605 for the first child, an additional \$405 for the second child and \$330 more for each additional child. In 1998 this became the NCB supplement to all families with income under \$20,922. The supplement increased the base CCTB to a maximum of \$1,625 for one child, \$3,050 for two and \$4,475 for three.

**6.35** However, as a tax benefit recipients could also receive less than the maximum amount. For each dollar of net income over \$20,921, the maximum NCB supplement is phased out by 12.1 percent for a one-child family, 20.2 percent for a two-child family and 26.8 percent for larger families, reducing to zero when income reaches \$25,922. The 1999 Budget maintained approximately the same rates

**The combination of federal tax benefits and provincial programs is innovative.**

**Joint accountability reports to the public on outcomes and expenditures are a key feature.**

Provinces and territories have agreed to “reinvest” savings from reduced social assistance payments in new programs that are consistent with the objectives of the National Child Benefit (NCB).

of phase-out when it increased the maximum NCB supplement by an additional \$180 per child in 1999 and a further \$170 per child in 2000. With a larger benefit to be phased out, the cut-off point at which the supplement is reduced to zero will increase to \$27,750 in 1999 and \$29,590 in 2000.

**6.36** The 1997 federal Budget indicated (see Appendix B) that although the intent of the NCB was to reduce social assistance by the amount of the supplement, a family on social assistance would be no worse off as a result of the NCB. However, the discontinued Working Income Supplement was not counted as income, whereas the NCB supplement was to be considered income and deducted dollar for dollar from social assistance benefits in most jurisdictions. Therefore, some families on social assistance who had received the Working Income Supplement in 1997 would potentially receive less in 1998. To avoid this, provinces and the federal government agreed to share 1998–99 costs of transitional assistance (under provincial social assistance budgets) for families whose income would otherwise have declined. It is not known whether this arrangement will continue beyond June 1999.

**Reinvestments: The contributions of provincial, territorial, municipal and First Nations governments**

**6.37** The financial commitment of provinces, territories, First Nations and Ontario municipalities is equal to the savings they will realize in reducing social assistance payments by the amount of the NCB supplement. The participants in the negotiations agreed that these “reinvestments” would be used to develop “programs and benefits reflective of each jurisdiction’s special needs and priorities. These reinvestments are consistent with the goals of the NCB: to reduce the depth of child poverty and help low-income

families find and keep work.” These could include:

- income support programs and tax measures for families with children and with incomes below certain levels;
- earnings supplements for families with children and with employment income in a specified range;
- extension to working poor families of in-kind benefits available for children in families receiving social assistance (for example, health benefits);
- improvement in overall child benefits to families receiving social assistance;
- social services, such as child care, that support parents’ attachment to the work force; and
- other initiatives aimed at preventing and reducing child poverty, such as child nutrition and teen parent programs.

**6.38** Specific child care subsidies and initiatives, for example, have been introduced or enhanced as part of the NCB in Newfoundland, New Brunswick, Prince Edward Island, Nova Scotia, Manitoba, and Alberta. Earned-income or child support supplements for families with children have been introduced or enhanced in Ontario, British Columbia, Saskatchewan, Nova Scotia and the Northwest Territories. Alberta, Saskatchewan and Prince Edward Island have introduced health benefits.

**6.39** Not all provinces reduced social assistance payments by the full amount of the NCB supplement. Newfoundland and New Brunswick chose to maintain social assistance payments at their previous levels, and thus had no savings to reinvest. Nevertheless, each instituted additional programs aimed at low-income families: New Brunswick allocated a portion of what it would have saved, and Newfoundland the entire amount. Although Alberta initially reduced social assistance payments by the amount of the

NCB supplement, it found that it was spending less than anticipated on its main reinvestment initiative, a child health benefit. It therefore increased shelter benefits for families on social assistance who have children.

**6.40** In June 1998, provinces (except Quebec) and territories announced the level of their commitments to the NCB: a total of \$329.4 million between July 1998 and June 1999. (These commitments will increase in July 1999 as the NCB supplement increases.) The First Nations commitment is \$27.8 million for the same period.

## Observations

### NCB Goals Involve Trade-offs and Performance Measurement Challenges

**6.41** In negotiations, it is often helpful to agree first on general principles. However, this is not the end of the process. As any negotiator knows, “the devil is in the details.”

**6.42** The partners negotiated three objectives for the National Child Benefit:

- reduce the depth of child poverty;
- increase parents' attachment to the work force; and
- reduce administrative overlap and duplication.

**6.43** It is important to understand how these goals interact with each other in order to appropriately assess the program's success. The underlying premise is that in the long term, child poverty will be reduced if parents on social assistance enter the work force and remain in it. The strategy of the National Child Benefit is to reduce child poverty by providing income supplements and other assistance to working families. The intention is to increase the benefit over time until it is large enough to eliminate

the “welfare wall” and is “sufficient to remove benefits for children from the welfare system”. In other words, the long-term aim is to eliminate the economic disincentives to work that occur when social assistance benefits for families with children are more than the earnings and other benefits of a minimum-wage job. The expectation is that more parents will enter or remain in the work force and that their children will benefit from their parents' improved status. These are all testable propositions and the challenge for reporting on the NCB will be to show that this is indeed what has happened.

#### Reducing the depth of poverty

**6.44** The first goal of the National Child Benefit is to reduce the depth (rather than the incidence) of poverty. Depth of poverty is the amount by which family income is below a poverty line; incidence is the number of people living below that line. According to those involved in developing the NCB, depth of poverty is a better measure than incidence. An aim to reduce the incidence of poverty would simply encourage serving the “richest” of the poor, since it might focus on helping those nearest the line to move just over it. In aiming to reduce the depth of poverty, however, the program designers aim to assist families regardless of income: each additional dollar of income reduces the depth of poverty, independent of whether the family is close to or far from the poverty line.

**6.45** One key question for assessing the success of the NCB will be, How deep is the depth of poverty? As defined in the preceding paragraph, depth of poverty is the amount by which family income is below a poverty line. Using Statistics Canada's low-income cut-off as a poverty line, HRDC estimates that in 1996 the aggregate depth of poverty for all families with children living below that line was \$7 billion. (The total depth of poverty is

As any negotiator knows, “the devil is in the details”.

The NCB goals involve testable propositions.

The choice of a poverty line depends on political and social values, not just technical considerations.

Even with the NCB supplement, some families may be economically less well-off working than on social assistance.

Although the NCB emphasizes accountability to the public, accountability to Parliament and accountability of government to government are also important.

greater because it also includes persons without children.)

**6.46** A second key question will be, How much has the NCB reduced the depth of poverty? The federal commitment for the NCB supplement to the base Canada Child Tax Benefit is \$850 million beginning in July 1998, rising to \$1.7 billion beginning in July 2000. The depth of poverty could theoretically be reduced by the entire amount if the value of all the provincial benefits were included. (Some provincial NCB programs, aimed at lowering the welfare wall by improving health benefits or subsidizing child care, might improve the economic situation of poor working families without providing direct income.) The depth of poverty could also be reduced by more than the supplement alone by counting the additional amounts earned by parents who enter the work force as a direct result of the NCB.

**6.47** The choice of poverty measure has an impact on measures of program performance. The resources required to meet any specific target for reducing the depth of poverty and to measure the degree of program success for a given level of expenditure will depend on how poverty is defined. A higher poverty line will mean that the aggregate depth of poverty is greater and therefore that more resources are required to reduce it. Ministers have decided to use two measures of low income for the first NCB report: Statistics Canada's low-income cut-offs (LICOs) and the low-income measure (LIM). While this Office and other credible bodies may comment on overall criteria, data quality and other implementation and administrative issues, how and where a poverty line is constructed depends in the final analysis on fundamental social and political value judgments, not just technical considerations.

### Increasing parents' attachment to the work force

**6.48** The premise for this goal is that in the longer term, working parents will be better able to meet the needs of their children than non-working parents. While some research supports this view, another view is that much more research is needed — especially on the outcomes of very young children whose parents work compared with those whose parents stay at home. Whatever the research concludes, NCB partners face a challenge in attributing changes in work force attachment to the NCB: first, changes in the economy unrelated to the NCB can affect labour markets; and second, at current NCB levels the benefits in most provinces reduce, but do not eliminate, the welfare wall.

### Reducing overlap and duplication

**6.49** Reducing overlap and duplication is an administrative goal. The challenge of achieving it is significant because the NCB can operate more efficiently if provincial social assistance data and federal child tax data are shared. There are problems of systems integration, and privacy laws may limit partners' ability to share data for administrative purposes. The most obvious opportunities for administrative savings are in tax benefit programs that use Revenue Canada systems.

### There are trade-offs in the short term between two goals

**6.50** While goals are sometimes mutually reinforcing, in other cases one may be achieved at the cost of not fully achieving another. In the NCB, the long-term intent is that increasing parental attachment to the labour market reinforces the goal of reducing the depth of poverty. However, there are potential trade-offs between these goals in the short term. That is, people leaving social assistance to take low-wage employment may actually be worse off economically in the short

term, even with the NCB supplement and other NCB program benefits. This happens whenever the total value of wages and increased benefits attributable to the NCB is less than the value of social assistance payments and benefits.

**6.51** In their accountability reports on the NCB, the partners will need to clearly discuss any such trade-offs and their implications. Otherwise, readers of the reports may expect that all the goals can be achieved simultaneously.

### **The goals are general, without specific targets or time frames**

**6.52** Qualitative measures can be very useful indices to demonstrate the effectiveness of an arrangement. However, performance expectations should have a quantitative component whenever it is feasible and appropriate. The goals for the NCB do not contain quantifiable expectations of performance. For example, there is no specific target amount by which the depth of poverty is to be reduced. As the goal is stated, it could be achieved if the depth of poverty were reduced by one dollar. Reducing the depth of child poverty is a goal for which targets can feasibly be set. It should be possible to identify specific areas and targets for the reduction of duplication and overlap. If these goals had been expressed as quantitative targets with specific time frames, it would be easier to determine the degree to which governments have achieved their aims.

### **The relationship of goals to performance expectations can be better explained**

**6.53** Transparency of the assumptions and evidence that underpin the design of a social program is essential to assessing the program's performance and outcomes. It is important for readers of the accountability report to know why the program is attempting to do what it is doing and what outcomes are anticipated. It is also useful to differentiate between

what is expected in the short term and what might be observed in the longer term.

**6.54** In the NCB, many of these relationships are made clear. For example, in the September 1997 background booklet, "Building a Better Future for Canadian Children", good use is made of research demonstrating the importance of early childhood intervention (see Appendix B). Evidence that parental attachment to the work force contributes to better outcomes for children was not presented, perhaps because research is not yet conclusive on this issue (as we note in paragraph 6.48). The issue is very complex. Recent HRDC-sponsored research tends to support the conclusion that work force attachment does not negatively affect outcomes for children. Positive outcomes are correlated with education and with parents who read to their children, and less positive outcomes with being on welfare. However, it is not easy to sort out cause and effect so that social policy can be designed. This is why HRDC continues to sponsor such research.

## **Accountability, Results Measurement, Audit and Evaluation Issues**

**6.55** An essential feature of the NCB is that provincial and territorial governments are responsible for delivering programs that lie within the NCB framework. However, the level of funds they commit to reinvestments is contingent on the level of savings they achieve in reducing social assistance payments. Who is responsible for assuring that this commitment is met? This raises a key question of roles and responsibilities.

### **Who is accountable to whom?**

**6.56** The NCB Governance and Accountability Framework, released in March 1998, distinguishes government-to-government accountability from government accountability to legislatures and from government

Readers of the accountability report should be told whether the data are comparable, accurate and, at least for financial information, subject to audit.

Each partner is responsible for its own data, and for obtaining assurance about the quality of the data that other partners submit.

accountability to the public. For the NCB, “governments will emphasize accountability to the public.” However, in our view there is no need to emphasize one type of accountability over another. Accountability to the public for the NCB is consistent with, but different from, accountability to other governments, or accountability to legislatures. For example, accountability to Parliament is related to its annual approval of budgets and Estimates, whereas accountability to the public is related to the public’s role as electors of MPs. These differences are important. Care will be required to ensure that all three types of accountability are maintained.

**6.57** A key mechanism for demonstrating accountability is credible reporting. While mechanisms for reporting to the public tend to vary according to the nature of each program, arrangements for reporting to legislatures are well defined and involve auditors general and legislative committees. The partners in the NCB state that one advantage of accountability to the public is that it will “minimize administrative reporting.” However, accountability is unlikely to be served best by minimized administrative reporting. Administrative data are part of the accountability and operational relationship between partners. They are also necessary for reporting both outputs and performance outcomes. The goal, therefore, should be to report appropriately. At the same time, if accountability to the public means that performance reports on the overall program present the necessary relevant, credible and auditable information to the public rather than to internal administrations, this would be one appropriate way to deal with the NCB’s interjurisdictional aspects.

### Key Accountability Ingredient: Adequate Information

**6.58** In the NCB Governance and Accountability Framework, partners have

agreed on the importance of obtaining relevant information. “The partners support the importance of evaluative and analytical work to ensure the appropriate and reliable measurement of program outcomes. The partners recognize the importance of ensuring that data provided for purposes of public reporting [are] open to public scrutiny.” Implementation needs to carry through on this commitment.

**6.59** However, smaller provinces and perhaps First Nations and municipalities may lack the resources to obtain accurate, comparable and relevant data and to verify them. This is an issue that can be addressed in the same collaborative spirit as has prevailed in the NCB design and implementation to date. For example, if asked, the federal government or larger provinces might work with partners to help them build capacity.

**6.60** Data do not have to be perfect, but they should be as good as possible. One important reason is that in negotiations it is important for the parties to have accurate information about their own and their partners’ contributions. This information is also useful for operational purposes. Later on, in reporting results and expenditures, data from several jurisdictions and levels of government will have to be aggregated and synthesized to assess whether progress is being made. The key ingredient to credible reporting, therefore, is that each partner take steps to ensure that:

- the information presented is credible and, at least for financial information, subject to audit;
- data are adequate to determine if overall program goals are being achieved; and
- data are sufficiently comparable that outcomes of different provincial approaches can be compared.

We expect that in negotiating agreements and, afterward, in reporting on the program, the federal government and its

partners will know and communicate information about the accuracy of the data they have received.

**6.61** The reinvestments raise particularly challenging questions of compliance, comparability and verifiability of data, and audit assurance. Clearly, each partner is responsible for data on its own contributions and, where assurance is required, can arrange for its own auditor to verify the information. Another possibility is that the partners' auditors can co-ordinate this task themselves. Whatever arrangement is finally arrived at, each partner is responsible for obtaining assurance from other partners that all the information is accurate and relevant. It will be important that readers know what information has been verified or is consistent with independent analysis, what has been or will be audited or otherwise independently verified, and what information must be accepted on trust.

**6.62** We examined information made available to federal officials about provincial reinvestments during 1998, as the NCB was being implemented. Although we did not perform a formal audit, we do have some preliminary observations.

**Reinvestments are within the parameters of the NCB goals and objectives but there are information gaps**

**6.63** According to the information that we have seen on reinvestments, their objectives appear to correspond clearly with at least one of the NCB objectives. However, there are gaps in the information. In general, the partners believe that most of these will be filled as the program matures.

**6.64** First Nations and Ontario municipalities will have funds available for reinvestments, but did not participate in the negotiations or the design of the accountability framework. As of February

1999, they were still formulating plans and had not announced them to the general public. (According to Indian and Northern Affairs Canada, some First Nations reinvestment programs have been announced to their own communities.) We do not yet know what measures they, like the provinces and territories, will take to ensure that their information is of adequate quality.

**6.65** With respect to First Nations programs, Indian and Northern Affairs Canada has informed us that it believes the steps taken to date will fulfil the obligation to account for the performance of the NCB in First Nations communities. It points out that since the reporting required from First Nations is based on the fiscal year, it will not receive information on the operations of reinvestment programs until July 1999. Indian and Northern Affairs believes that it will then be in a better position to assess the quality of data and the capacity of First Nations to provide it. It has said it is committed to working in partnership with First Nations to assess and evaluate the long-term impacts of the NCB on reserves.

**6.66** First Nations directly administer at the community level an estimated \$592 million in social assistance programs. Indian and Northern Affairs has indicated that the First Nations commitment for on-reserve reinvestments in the first full year is \$27.8 million — the fourth-largest reinvestment amount after Ontario, Quebec, and British Columbia. First Nations communities are very diverse in size, population, socio-economic conditions, governance and capacity. Indian and Northern Affairs points out that the introduction of a largely federal-provincial-territorial program into this diverse population, with concomitant reporting and accountability expectations, presents unique challenges. It has informed us that its regional offices have been working with First Nations and, where appropriate, with provinces and territories to develop mutually acceptable

So far, there is little information on exactly what reinvestments Ontario municipalities and First Nations are making in the NCB.

It is easier to determine whether a certain amount of money has been spent than to determine whether in the longer term the expenditures are achieving program goals.

frameworks that will guide the implementation, funding and reporting requirements of the NCB reinvestment initiatives. Its aim is to have frameworks that are both consistent with the objectives of the NCB and flexible enough to address the different priorities and needs of First Nations communities.

**6.67** Because municipalities pay 20 percent of social assistance expenditures, Ontario has asked them to design their own NCB reinvestment programs. Those will account for 20 percent of Ontario's reinvestments. At December 1998, municipalities had only begun to design their programs. The province has informed us that it is putting in place a requirement that municipalities provide it with the necessary information to demonstrate that they have met their obligations under the NCB. It indicated that it is a high priority for Ontario to have accurate and timely information on municipal strategies, expenditures, and program performance and it does not anticipate any gaps in information on municipal reinvestments.

**6.68** Finally, there is no information about Quebec's reinvestments, since Quebec has participated in the discussions only as an observer. As we indicated in paragraph 6.24, Quebec has instituted programs that would likely have qualified as reinvestments. HRDC estimates that if Quebec had been a party to the agreement, its reinvestment envelope would have been approximately \$150 million.

#### **Are reinvestments "new" money?**

**6.69** The reinvestments not only must meet the objectives of the National Child Benefit but also must represent new programs or enhancements to existing ones. According to information supplied by the provinces, the reinvestments announced so far meet both these criteria. However, because that information has not been verified, there is no independent assurance yet that this is indeed the case.

Definitive answers may come later; these programs are in the early stages of implementation.

#### **Are the data on the size of reinvestments reasonably accurate and is the degree of inaccuracy, if any, known and acceptable?**

**6.70** Participating provinces and territories have agreed that the amounts they reinvest will be at least equal to the savings they realize in reducing welfare payments. Clearly, future savings can only be estimated. The amounts of the actual savings will have to be reported when they have been realized. As well, when there are uncertainties about the data it will be important to give readers information on the range of uncertainty, much as is done with polling results. However, it is also important to keep in perspective the question of whether the reinvestments are at the right levels. It is easier to determine whether a certain amount of money has been spent than to determine whether in the longer term the expenditures are achieving program goals.

**6.71** Estimating the amounts to be reinvested is not a straightforward task. For example, they depend on the number of children in families receiving social assistance, not on total population. Thus, Alberta plans to reinvest less per capita than Saskatchewan because it has fewer children in families on social assistance. Another complication is that reinvestment levels are related to the previous year's income of families on social assistance, because this is how the amount of a parent's Canada Child Tax Benefit is determined. Since families whose previous year's income was over \$25,921 do not receive the NCB supplement, a province would not be entitled to reduce their social assistance. If the economy were to take a sudden downturn and the number of people on social assistance increased, the commitment to reinvestment would increase. However, the calculation would have to take into account that some of the new social

The accountability report should state the level of actual expenditures and compare them with the commitments made by each partner.

assistance recipients might have had too high an income the previous year to qualify for the NCB supplement, and for these individuals there would be no savings to reinvest.

**6.72** Federal officials have told us they are satisfied that provincial estimates of planned reinvestments are accurate and that correct levels of reinvestment are planned. We have not verified these calculations, and would need more information to do so. We have not seen estimates of an acceptable range of accuracy for the projections of provincial reinvestments, nor have we seen plans to verify the actual levels. We have no reason to believe that the calculations are inaccurate or that planned and actual expenditures will be less than agreed, except perhaps in the first year (see paragraph 6.80).

**Are there known data gaps and problems and are plans in place to fix them?**

**6.73** A technical sub-group of the NCB Working Group has devoted a great deal of study to these issues. From the information made available to us, it is evident that many data issues were identified but, given the short time available for implementation, only the issues most critical to starting the program were addressed.

**6.74** One of the key remaining issues is how to obtain and link data on employment, social assistance, income tax and family structure without compromising privacy. For example, a two-way “data exchange” between provinces or municipalities and Revenue Canada could help reconcile differences in data on family structure, movement of children between caregivers, etc., so that overpayments and underpayments could be dealt with quickly and accurately, perhaps automatically. To enhance

comparability and increase efficiency, there may be a need to reconcile differences between data systems of the different jurisdictions. A related question will be whether data will be available for evaluation and analysis.

**Means to monitor and inform all participants and stakeholders**

**6.75** Co-ordination and negotiation of the next phase of the NCB and reporting on its performance will continue. Given the collaboration that has taken place so far with provinces and territories, we would expect the federal government, as a partner, to be informed on a timely basis about changes to programs and levels of expenditure as well as outcomes. However, it is too early to be able to report that this is actually happening.

**What are the means for dispute settlement?**

**6.76** The NCB is not a contract or contribution agreement. The NCB Governance and Accountability Framework offers partners several processes for resolving issues. These range from submitting the issues to bodies such as Ministers Responsible for Social Services to ad hoc bilateral processes, whose results are communicated to the other partners. However, in the final analysis there is no mechanism other than mutual agreement for settling disputes, and no provision for sanctions if the agreement is not observed. The federal government has no direct means to influence provincial actions since the Canada Child Tax Benefit goes directly to families, not provinces. Similarly, despite the high degree of collaboration, it is ultimately the federal government that decides the level and basic structure of the tax benefit. In the NCB, trust and transparency are the basic means for stakeholders to determine whether all partners are meeting their commitments.

**A key issue is how to obtain and link data held by different partners without compromising privacy.**

**The first accountability and performance report on the NCB is due this spring.**

## The First Accountability and Performance Report

**6.77** Federal-provincial-territorial partners have said that the first National Child Benefit accountability and performance report “will outline the results of the NCB to date and detail the performance measures that will help us to remain publicly accountable for the success of the NCB.” That report, originally scheduled for September 1998, was due at this writing in the spring of 1999. Our observations are based on the description of the report in the Governance and Accountability Framework released after the March 1998 meeting of Ministers Responsible for Social Services.

**6.78** The partners stated that the goals for the report are to:

- place the NCB in the context of child poverty;
- establish some baseline data;
- provide some statistics on program recipients and expenditures; and
- provide some preliminary information on how the program will be monitored and assessed, what indicators will be used, and what studies will be undertaken.

**6.79** The report is the core accountability document for the NCB. We recognize that in the first report it will be too early to comment on whether the NCB has achieved its aims. However, it is not too early to make some preliminary judgments about mechanisms for ensuring the quality and relevance of information to be gathered, and to discuss the relevance and limitations of the chosen performance indicators. Nor is it too early for the partners to say what targets and benchmarks they will use to monitor the program’s success.

## Data for outcome indicators need to be accurate and comparable

**6.80** We believe the report needs to contain assurances from the partners that estimates are based on a consistent and appropriate methodology, and that data on savings and on actual expenditures have been (or can be) verified. In other words, the report should indicate actual amounts of federal tax benefits, as well as actual expenditures by the other partners. This will enable readers to determine to what degree each has met its financial commitments. There is a risk, particularly in the first year, that savings will already have been realized while some reinvestments may not yet have been made. It would be appropriate for the federal government to report the actual amounts of the NCB supplement broken down by province and other relevant analytical categories, and to include the total in Volume I of the Public Accounts.

**6.81** In the accountability and performance reports, the federal government and its partners have, in our view, individually and collectively committed to ensuring that relevant and comparable data are available. An important question will be whether this is accomplished.

**6.82** The partners have announced that the first report would contain two kinds of measures:

- program statistics to indicate the inputs and outputs of the NCB — who has benefited, overall expenditures, and so forth; and
- outcome indicators — to assess the impact of the NCB on low-income families with children.

**6.83** The ministers said:

Outcome indicators could include:

- Changes in the percentage of the total income of low-income families that result from employment:

There is a risk that savings are being realized before reinvestment programs are in place.

Proposed outcome indicators may not reflect very accurately the impact of the NCB.

By monitoring this outcome indicator, we would be able to measure the degree to which low-income families with children increase their attachment to the workforce over time.

This indicator would measure changes in attachment to the work force. However, the reasons for change might not be clear. For example, more stringent criteria or lower social assistance payments could also produce a positive trend in the ratio of employment income to non-employment income. This would not necessarily mean that child poverty was declining.

- Changes in the number of families with children on social assistance:

This indicator would reflect the degree to which low-income families with children move off social assistance, as compared to being in the workforce and/or receiving income supplements.

This is probably a good indicator of general changes in the labour market. A lower proportion of families on social assistance would indicate that, all other things being constant, working was a more attractive option than receiving social assistance. However, it is less useful as a measure of NCB success, because attributing success or failure to the NCB would assume that labour market conditions and requirements for social assistance were constant. This is a large assumption.

- Changes in depth of poverty:

The NCB is an important step being taken to reduce the depth of child poverty over time. The depth of poverty indicates the income gap for families with children measured against one or more lines of low-income measurement.

This indicator would show the NCB's relative impact on family income assuming that, overall, economic

conditions remained constant. However, the numbers would need to be broken down by gender, location, family size, income level, type of employment, and so forth in order to be useful.

**6.84** Experts and advocacy groups were asked for their comments on these proposed measures. In response to their suggestions, the report will likely contain revised measures of outcome, offer caveats about their accuracy and validity, and present additional relevant background information for assessing NCB success.

#### What the indicators tell us

**6.85** The word "indicators" tells us that the proposed measures will indicate whether or not things are going in the right direction, but not necessarily why. In complex situations, indicators are a useful diagnostic tool but not an unambiguous measure of program performance. Also needed are measures of intermediate outcomes (such as the extent to which a decrease in the poverty gap can be attributed to the NCB) and program evaluation.

**6.86** In the booklet entitled "Building a Better Future for Canada's Children", the federal-provincial-territorial governments promise that the accountability and performance report will contain performance measures for the program as a whole:

Governments are now identifying performance outcomes that will measure the National Child Benefit's success in achieving its objectives. They are also evaluating how closely results can be linked to the investments made in the National Child Benefit, recognizing that this program will be only one of many factors that will affect the well-being of children and families.

Performance outcomes will be incorporated into public reports that will describe the National Child Benefit's success in meeting its

Some outcome indicators may be more useful as diagnostic tools than as program performance measures.

objectives. These reports will ensure that governments are fully accountable to the public. They will also allow provinces and territories to evaluate and share the results of their various National Child Benefit reinvestment initiatives.

**6.87** Notwithstanding this optimism about measuring performance outcomes, it will be a great challenge to attribute outcomes to the impact of the NCB. For example, if more families leave social assistance to go to work, how much of this outcome can we attribute to the National Child Benefit and how much to general improvements in the economic climate and labour market? Conversely, if fewer parents leave social assistance to enter the work force, is it because the NCB is poorly designed? In both cases, there are other factors at play. It is important to deal openly with this issue. The most obvious reason is the time it will take to determine the NCB's long-term impact on children. It could take 20 years to see whether they have entered the work force, gone to university and so on. This makes it essential that the report use measures of intermediate outcomes, and that it explain the degree to which measured trends and outcomes are attributable to the NCB.

#### **Role of evaluation**

**6.88** How, then, can Parliament and other interested parties find out what the program has accomplished? As we have noted, good measures of intermediate outcomes will provide useful information. As well, evaluation studies will eventually provide insight on program results that are not easily captured by single measures. In the NCB's Governance and Accountability Framework, the partners have said they "support the importance of evaluative and analytical work to ensure the appropriate and reliable measurement of program outcomes [and] recognize the importance of ensuring that data provided for purposes of public reporting [are] open to public scrutiny." The evaluation

framework is still being developed. As a result, there are not yet concrete plans that include both organizational and financial commitments to do the work set out in the framework, including ensuring that information systems are in place to show whether the NCB and similar programs lead to better outcomes for Canada's children. It is important that this commitment be kept. The accountability report should report on the status of this work.

### **Accomplishments to Date**

#### **Reaching agreement: Clear evidence of common goals and trust**

**6.89** Achieving federal-provincial-territorial agreement on a major social program and implementing it in less than two years is a significant achievement. In our interviews and in the documentation we saw from working groups of officials and meetings of ministers and deputy ministers, we found evidence of people working hard toward common goals. Many participants used the word "trust" to describe their relationships with each other and said that this program could not have got off the ground without it.

**6.90** There was a good level of co-operation in all of these groups and committees. When ministers met, for example, they used common briefing notes agreed on by their officials for each agenda item. Comments of those involved suggest that these meetings met the criterion (discussed in Chapter 5 of this Report) of dealing with complex relationships with co-ordination, mutual trust and confidence.

**6.91** A significant aspect of reaching agreement was the decision to link the goal of reducing child poverty to the goal of increasing parents' attachment to the work force. While this linkage makes performance measurement a greater challenge, it is clear that agreement on these policy goals has been a critical factor in the progress to date.

The accomplishments so far reflect a spirit of trust and collaboration.

It will be important to carry through on the commitment to evaluation.

### **Implementation: Continuing commitment to outcome measures and accountability**

**6.92** The participants have displayed a commitment to transparency through frequent public announcements of most results of ministerial meetings, and in continuing statements committing to accountability. While some issues remain, the early stages of the process clearly reflect a desire to display an appropriate degree of accountability for this program.

### **Transparency and consultation: Public was informed at many key steps**

**6.93** A potentially important aspect of a commitment to transparency is consultation. When the target group is children living in poverty, direct consultation on relatively complex matters related to reinvestment strategies and selection of outcome measures is very difficult. Proxies must do. To provide a forum for exchange on NCB issues, HRDC set up the NCB Reference Group with representatives from 10 groups of non-governmental organizations that are concerned about children in poverty. Although the consultations were not public, the recommendations from these groups were considered in the NCB Working Group's deliberations. As well, some jurisdictions undertook public consultations about their reinvestment strategies.

**6.94** At several points in the process, public announcements were made. An Internet site was established that provided all the documents released after meetings of Ministers Responsible for Social Services ([http://socialunion.gc.ca/ncb\\_e.html](http://socialunion.gc.ca/ncb_e.html)). All this was in addition to special efforts by Revenue Canada to inform the public and respond to its concerns in order to ensure as smooth a transition as possible when the new benefit was implemented in July 1998.

## **Conclusion**

**6.95** In observing the early stages of the National Child Benefit, we recognize the special effort participants are making to ensure accountability. There are potential gaps in the quality of financial and other information that will need to be addressed. Outcome indicators will not reflect the impact of NCB programs alone. It will therefore be important to have realistic expectations about what the joint accountability and performance reports can say, in the short term, about the impacts of the NCB. Nor is it clear to what degree the information supplied by all parties will be accurate and verifiable. This includes information from those who helped frame the agreement (provinces, territories and the federal government), as well as those responsible for designing and implementing only specific programs (Ontario municipalities and First Nations). It is not clear if data will be sufficiently comparable to allow for comparison of the outcomes of the different reinvestments made under the NCB.

**6.96** The challenge for all involved in this program is to be able to assure taxpayers that moneys are spent with due regard to economy and efficiency, and with appropriate means to measure and report on the effectiveness of not only individual parts of the program but also the program as a whole. This needs to be done in a way that respects the jurisdictional competence of the different parties involved. We believe that it is possible to do so and that many steps in the right direction have already been taken. Indeed, if the issues we have discussed are successfully addressed by all parties concerned (including audit offices), accountability for the expenditures and outcomes of the National Child Benefit will be just as rigorous and comprehensive as it would had only one jurisdiction been responsible.

**Comparable data are  
needed to see what  
works and what does  
not work.**

**We believe that  
accountability for this  
shared program can  
be achieved if the  
issues raised in this  
study are successfully  
addressed.**

### How to achieve accountability for the NCB: Five suggestions

**6.97** To parliamentary committees and others who may want to examine the early reports on NCB expenditures and outcomes, we offer five suggestions consistent with the general questions about collaborative arrangements discussed in Chapter 5 of this Report.

- Ask how and when we will know if desired results have been achieved. In other words, have reasonable expectations for the accountability reports—at current levels of funding, the NCB cannot be expected on its own to fully eliminate child poverty or the “welfare wall”. Some impacts will not be visible in the first or even the second year, but means of collecting the data to show the impacts must be in place now.

- Ask how reliable the information is. How good are the data? How can one know? Information could be unverified and still be reliable, but in what circumstances should only those supplying the information make this judgment? Where there is potential for conflict of interest (an interest in reporting mainly positive results, for example) ask not only whether there is a need to consider obtaining independent assurance but also whether doing so would be worth the cost.

- Accept that the choice of outcome measures is partly political. It is reasonable to question whether a chosen measure is appropriate, but not whether final accountability for the choice should rest with elected officials. Consider asking under what circumstances it might be appropriate to delegate the responsibility to independent third parties for implementing or revising the measures and evaluating the results.

- Encourage transparency and openness by treating the publication of

negative trends in outcomes as opportunities for learning or improving the program, not for laying blame.

- Accept that in an interjurisdictional situation like the NCB, accountability is shared. Seek answers from those best able to answer. Overall accountability can be achieved only through holding partners accountable for not only their own programs but also overall outcomes.

**Department's comment:** *The Department appreciates the thoughtful analysis that the Auditor General provided in this case study on accountability for the National Child Benefit (NCB). The study raises some important issues surrounding the establishment of appropriate accountability arrangements and the credible measurement of results. The comments and suggestions of the Auditor General will be of considerable assistance to the Federal-Provincial-Territorial NCB Working Group as it prepares the NCB Progress Report and continues to build a NCB accountability regime.*

*We can report that many of the issues raised by the Auditor General are being addressed by the federal government and its provincial and territorial partners. For example, outcome indicators and evaluation issues have been the subject of consultations with experts and advocacy groups and work will continue on these issues. In addition, the Federal-Provincial-Territorial NCB Working Group is currently preparing the first NCB Progress Report. All efforts are being made to ensure that the information contained in the Progress Report is timely, comparable, credible and complete. The remaining issues identified by the Auditor General will be raised by the federal government in its capacity as Co-Chair of the NCB Working Group.*

## Employability Assistance for People with Disabilities

### Introduction

**6.98** During 1997–98, provinces (except Quebec) and Human Resources Development Canada (HRDC), on behalf of the federal government, agreed on a framework for a new initiative: Employability Assistance for People with Disabilities (EAPD). Quebec did not endorse the framework, but in 1999 it did sign a bilateral agreement with the federal government to participate in EAPD. Implementation began in 1998–99, with plans to be fully operational by 2001–02. This is a \$193 million shared-cost contribution arrangement (annual provincial costs are matched by the federal government), which is described more fully in the federal government's Social Union Internet site (<http://socialunion.gc.ca>). As a financial arrangement, it is similar to other shared-cost programs, including its immediate predecessor, Vocational Rehabilitation of Disabled Persons.

**6.99** The EAPD initiative represents a small, targeted portion of total spending on persons with disabilities. Its objectives emphasize employability; that is, it supports programs aimed at helping people with disabilities achieve the capacity to enter and remain in the regular labour market, as distinct from supporting participation in sheltered workshops and related kinds of employment supports.

**6.100** This case study focusses on the accountability arrangements of EAPD and the elements to be included in future reports on its results, particularly the performance indicators that have been identified and the challenges implicit in designing and using these indicators. Our aim was to assess whether EAPD has some of the characteristics of a collaborative arrangement, to identify the factors that may delay or constrain the achievement of appropriate accountability

arrangements and to make suggestions for improvement at an early stage in the process of implementing this initiative.

**6.101** As the population ages, the numbers of persons with disabilities will increase. The most recent Statistics Canada data (1991, based on the since-discontinued Health and Activity Limitation Survey) indicate that 16 percent of Canadians (or approximately 4.2 million people) report some level of disability. Fifty percent of those over 65 report some level of disability.

**6.102** The last five years have seen major efforts to revise and improve services while reducing costs. The 1994 government-wide Program Review, the Mainstream '92 initiative and the 1996 report of the Federal Task Force on Disability Issues (the Scott Task Force) have all had a significant impact. The Standing Committee on Human Resources Development and Status of Persons with Disabilities produced four reports between 1990 and 1995, dealing with such matters as the legislative and regulatory framework, the continued "marginalization of persons with disabilities", improvements to the tax system, and the integration of persons with disabilities from the concept of a "warehouse" toward an "open house".

**6.103** The process of arriving at a new program arose from federal-provincial-territorial discussions on social policy renewal. Annual Premiers' Conferences, First Ministers' Meetings, meetings of Ministers Responsible for Social Services, and meetings of the Federal-Provincial-Territorial Council on Social Policy Renewal all made it a priority to improve income support for disabled persons through increased employment. Indeed, one measure of program success would be savings realized by income support

There are 4.2 million Canadians who report some level of disability.

Agreement on the initiative emerged from a process of successful federal-provincial-territorial collaboration.

programs due to increased labour market participation by persons with disabilities. In addition to the clear benefits for persons with disabilities, their increased pay would mean increased government revenue and reduced income support expenditures over the long term. With this direction in mind, in February 1997 officials began to review programming then funded under the *Vocational Rehabilitation of Disabled Persons Act*.

**6.104** The first order of business was to develop a mutually acceptable multilateral framework that would guide the negotiations of subsequent bilateral contribution agreements between the federal government and the provinces and territories. Three informal task teams worked in tandem to develop an accountability framework, proposals for changes to the funding allocation formula and a policy framework for EAPD. The chief policy thrusts are a clearer focus on employability and accountability, bolstered by commitments to measuring results and to ongoing evaluation of the program. HRDC held formal consultations with representatives of the community of people with disabilities in April and June 1997. Provinces also incorporated the input from their own consultations into the work of the Federal-Provincial-Territorial Working Group.

## Observations

### Governance and Accountability Arrangements

**6.105** The multilateral framework and the bilateral contribution agreements have several of the elements discussed in Chapter 5 of this Report, on collaborative arrangements. The governments agreed to a co-ordinated, participative planning process and to evaluation of program results. The agreements also call for both a quantitative and a qualitative approach to assessing performance. Results

indicators are stated, taking into account the characteristics of people with disabilities, the desire to achieve administrative efficiencies and the value of stakeholder participation.

**6.106** The partners agreed that the initiative would emphasize “annual accountability to consumers and the general public.” As we discuss more fully in the case study on the National Child Benefit (paragraph 6.56), accountability to the public need not diminish accountability to Parliament; the key is that information must be adequate so reporting is credible.

### Performance measures are varied: Some present challenges to implement and use

**6.107** The multilateral framework recognizes that the program is accountable to funders and to the public; results in the short, medium and long terms must be monitored and assessments of results should involve the client groups. The framework also recognizes that not all results are easily quantified, so it allows for qualitative assessments such as “best practices”. Use of both qualitative and quantitative measures is expected to produce more useful and balanced information than either type alone.

**6.108** The primary quantitative indicators of results focus on the “supply side” — increasing the number of employable persons with disabilities who are ready to enter the labour market. Other programs for persons with disabilities have dealt with the “demand side” of the equation — stimulating the demand for employees who are disabled by working with employers, business and community groups to change stereotypes, identify appropriate training and job opportunities and demonstrate how persons with disabilities can fit into the workplace. The challenge is to ascertain, when indicators show a positive or a negative trend, whether employment opportunities have been affected by external labour market

A multilateral framework served as a guide for subsequent bilateral negotiations.

factors (such as a general rise or fall in the unemployment rate) rather than by EAPD.

**6.109** Our 1997 Report Chapter 22, *Crown Corporations: Making Performance Measurement Work*, describes a good performance indicator as one that is meaningful, reliable and practical. “Meaningful” means the indicator is understandable (clear, concrete/measurable, in context), relevant (related to objectives, significant, useful, attributable) and comparable (over time and with other organizations or standards). “Reliable”, in this context, means it is an accurate representation (valid/free from bias) of what is being measured, is replicable or verifiable, is free from error or manipulation and balances other indicators. “Practical” means that it is feasible, both financially and temporally, to gather data.

**6.110** The quantitative indicators described in the multilateral framework were developed through an analysis of EAPD’s component programs, the input of the client community, and HRDC’s experience with results indicators in the Employment Insurance program. The measures tend to focus on activities and intermediate outcomes rather than on long-term results. The indicators agreed on in the multilateral framework show some of the challenges that arise when trying to measure results, as the following paragraphs discuss.

**6.111 Number of people employed, or sustained in employment in the event of vocational crises.** This indicator actually contains two measures that have meaning and relevance, where it is feasible to gather the data. The bilateral agreements recognize this and split them. However, the task of defining the measures is not finished. For instance, the partners will need to define operationally what “sustained in employment” means.

**6.112 Number of people actively participating in or successfully completing an EAPD program and, if**

**unsuccessful, the reasons.** The number of active participants is meaningful as a “throughput” measure, and is practical to collect. Determining why participants may not have succeeded could provide important information for lessons learned and program redesign. However, unless all jurisdictions have similar definitions of what it means to complete a program, and similar methods of data collection, the information will not necessarily be comparable.

**6.113 Number of people not served, on waiting lists or unable to access interventions.** This indicator in the multilateral framework contains three measures, the first and last of which were omitted from all bilateral agreements. The “number of people on waiting lists” is a measure of unfulfilled demand for services, but different standards and practices for compiling waiting lists in different jurisdictions will cause data variations, making comparisons difficult. Length of time on the waiting list is also important. Several bilateral agreements therefore added a measure for “waiting periods”.

**6.114 Savings to income support programs as a result of increased earnings through employment.** This potentially valuable indicator presents major challenges of practicality in obtaining accurate and reliable data. The federal-provincial accountability task team recognized this complexity and proposed that “all provinces should be engaged in a discussion around the methodological design required to capture this element”. The idea behind the measure is simple — a person whose employment income increases as a result of this program will need less income support or perhaps none, enabling government to save correspondingly. However, the question immediately arises as to whether, for how long, and in what proportion the disabled person’s increase in income is to be claimed as “savings” to income support programs. The answer will require good research into the causal

Defining good performance indicators is a challenge.

Partners must all use the same definitions for terms like “successful” so that measures of performance are comparable among jurisdictions.

**The implementation issues seem solvable.**

linkages among EAPD, employment earnings and savings to income support programs. Virtually all bilateral agreements state that joint evaluation of this indicator will be “subject to the feasibility of collecting the data and establishing the systems linkages required”. A further complication is that federal and provincial privacy laws must be respected.

**6.115 Number of people who have received support and have maintained employment or advanced in their jobs.**

This indicator was incorporated into only one bilateral agreement. The other indicators already capture most of the required information. Advancement in employment would be useful to know but actually obtaining the data would present significant challenges: the meaning of “advancement” would have to be defined in ways that would allow for a comparison of the results of different programs in various jurisdictions.

**6.116** In general, it is too early to assess how successfully the program has addressed the challenge of gathering and presenting data that are reliable and comparable across jurisdictions and that reflect the program’s performance. The partners are aware of the challenge. For example, they have agreed to modify in the bilateral agreements the primary indicators agreed to in the multilateral framework. They agreed that some of the indicators would be reported in annual reports; participants would use formal evaluation to measure the others and to assess the reasons for any lack of success. This is clearly a step in the right direction.

**Roles and responsibilities are stated in general terms**

**6.117** The bilateral agreements set out the general roles and responsibilities of the parties; this general approach was helpful in reaching agreement. The most fundamental distinction is that while partners share responsibility for the

overall framework and the contents of each bilateral agreement, the provinces deliver EAPD programs and the federal government pays half the cost. Many specific details, such as roles and responsibility for evaluation, have yet to be specified. Officials involved in the negotiations state that the complexity of the program and the tight time frame in which the bilateral agreements were negotiated tended to preclude covering these implementation issues in the agreements. As we note in the case study on the National Child Benefit (paragraph 6.41), negotiations typically concentrate on general principles in order to reach general agreement. The resultant flexibility and room to manoeuvre can, appropriately, leave many important details to be worked out later. However, implementation should not be an afterthought. Those responsible for program design, delivery and oversight must all pay close attention to the issues it raises. We saw no evidence that the partners have encountered implementation issues that are insoluble.

**It is too early to say whether reporting will be credible**

**6.118** We are encouraged by the commitment to accountability made in the multilateral framework. We are also aware that informal federal-provincial task teams have been working since 1997 on performance indicators and on specifying the data needed. Work is now commencing on establishing evaluation parameters. Given the lead time and the planning that has already taken place, we expect that eventually there will be good information on what works and what does not work.

**6.119** Readers of accountability reports will want to ask the following kinds of questions.

**6.120 Are the data presented reasonably accurate and is the degree of any inaccuracy known and acceptable?** One important aspect of reporting credibly

**Roles and responsibilities for evaluation have yet to be specified.**

on program results is describing the reliability and validity of the information presented and the methods used to collect and verify the data, giving an indication of their accuracy, and noting any related factors that may have influenced the results. The technical and practical challenges of obtaining valid, reliable and consistent data are many, including the challenges of attributing results to the measures and tracking clients. The parties will need to continue working to resolve many of these issues if information on results is to be credible, timely, meaningful and useful.

**6.121 Is there knowledge of what data gaps and problems exist and are there plans in place to fix them?** There may be, for example, differences among the parties in their standards of program completion, measurements of waiting lists, and calculations of savings to income support programs. We are aware that this is a concern for officials, but we do not know precisely what plans they have to deal with these issues.

**6.122 Is there reasonable provision for review, audit and program evaluation?** The parties have agreed to review the arrangements under the EAPD agreements after the end of the third year (2000–01). We expect that all parties will routinely review and adjust their programs, in order to improve services and capitalize on best practices and lessons learned from pilot projects. The multilateral framework commits the partners to reasonable review efforts (which normally would result in adjustments to improve efficiency and effectiveness, and in more transparency). The key will be how these review provisions in the framework are implemented.

**6.123** The bilateral agreements require the provinces to produce audited financial statements of program expenditures. These statements are sent to HRDC for approval and reimbursement of expenses.

There is no requirement for independent verification of other performance information. We believe that the federal government should seek some assurance about the accuracy of the systems that provide the information.

**6.124** The bilateral agreements also require the provinces each to produce annual reports and multi-year program and expenditure plans. These annual reports are to be published. However, it is not clear that they will contain comparative or analytical cross-provincial data. We believe this type of data would contribute to accountability for the federal expenditure, by providing information to identify best practices and to make valid comparisons of provincial program performance. We recognize that comparisons can be misinterpreted and oversimplified. It will be important to make the appropriate qualifications in the overall annual report that we recommend HRDC prepare (see paragraph 6.129).

**6.125** The agreements also require provinces to conduct program evaluations of longer-term impacts (though no due dates are specified) and to measure progress using the identified performance indicators. These evaluations may serve to confirm the provinces' performance information. HRDC, as one of the parties, agrees to undertake ongoing evaluations with its partners and to make the evaluation results public. The partners are aware of the challenges to fulfilling the evaluation requirement. A group of provincial and HRDC regional officials is working out the details of how, when and by whom the various aspects of evaluation will be undertaken. HRDC's Evaluation and Data Development group is actively involved in defining approaches to the EAPD evaluation and has developed a discussion draft *Proposed Framework for the Evaluation of EAPD*. Two federal-provincial accountability sub-working groups were created to develop options for the evaluation and to establish a common set of definitions for

Accountability is  
better served if data  
are comparable across  
jurisdictions.

the results indicators. This presumably will involve identification of common issues, supporting data, time frames, roles and responsibilities, as well as an approach to national issues and a national synthesis of results. So far, the majority of provinces have agreed to proceed with an assessment of the feasibility of evaluations that would examine the design and delivery features of the EAPD interventions existing across Canada. This work may also determine if it will be possible, given the data being collected, to carry out a longitudinal survey of EAPD participants and to follow their outcomes.

## Conclusion and Recommendation

### Accountability, performance measures and evaluation remain at issue

**6.126** The process by which the two levels of government arrived at the bilateral agreements for EAPD contains many worthwhile elements that illustrate the precepts outlined in Chapter 5 of this Report, Collaborative Arrangements: Issues for the Federal Government. The degree of co-operation and collaboration involved in reaching these agreements deserves praise. However, in the final analysis, the success of EAPD will be judged not by what is in the agreements but by the results they generate. Nevertheless, adherence to the agreements may contribute to program success. Have the evaluations actually been undertaken? What do they tell us? Have gaps in data been successfully addressed? With implementation still under way, it is too early to have definitive answers to such questions but it is not too early to ask whether plans and budgets indicate a firm commitment to realize these aims. At this early juncture, we have two observations and a recommendation for improvement.

**6.127** There are no plans to publish any overall annual report. The first

provincial annual reports will be produced for the year 1999–2000. However, no deadline has been set for tabling or submitting these reports and there is no provision for an overall annual report.

**6.128** There are no specific goals or targets over any specified time frame. HRDC officials cite the lack of baseline data and the complexity of the services delivered by provinces and third parties as reasons for the lack of defined performance expectations or established targets. They also consider it more important to meet the needs of individuals than to set targets, though some provinces have made some projections. Stakeholders and officials are also concerned that setting such targets would encourage “creaming”—that is, selecting first the clients with the greatest chance of success so as to yield early positive results. This would discriminate against persons who need longer and/or more interventions to achieve success. While this means that overly simplistic targets are inappropriate, we believe that well-defined goals can, and still should, be established for each EAPD program.

**6.129** To add to the annual reports by the partners, Human Resources Development Canada should, in collaboration with its partners, prepare a brief overall annual report on Employability Assistance for People with Disabilities, comparing partners’ activities, expenditures, program outputs and performance.

**6.130** The report should include:

- performance targets both for the program overall and for the individual provincial programs;
- a description of limitations in the accuracy and the comparability of data;
- an indication of which data have been audited;
- information on program adjustments and lessons learned from

In the final analysis, success will be judged by results, not by what is in the agreements.

reviews of the federal-provincial arrangements;

- performance measurements; and
- evaluation studies.

**6.131** This annual report should be made public not later than six to nine months after the end of the fiscal year.

*Department's response:* The Department appreciates the contribution of this case study to our work with provinces in implementing Employability Assistance for People with Disabilities (EAPD). The Auditor General has outlined many of the key challenges we face in meeting the commitment to accountability and results indicators agreed to by federal and provincial-territorial Ministers Responsible for Social Services. The case study provides a useful analysis that will inform our ongoing work with provinces.

*The Department agrees in principle with the Auditor General's recommendation to produce an overall annual report on EAPD. Work is under way, in collaboration with provinces, to ensure consistency in reporting on EAPD-funded programs. The Department will consider the suggestions and comments of the Auditor General in the development of annual report. In preparing the reports and in measuring and comparing results and outcomes, it will be important to note that EAPD-funded programs constitute only part of overall programming for people with disabilities and should be considered in the unique context of each province.*



## About the Study

### Objective and Scope

Our aim was to help parliamentarians and others to arrive at a reasonable set of expectations for the accountability arrangements and measures that are important features of shared social programs in which Human Resources Development Canada (HRDC) is responsible for federal policy co-ordination and leadership. Our scope included two case studies of programs in the “social union” — the National Child Benefit (NCB) and Employability Assistance for People with Disabilities (EAPD). We sought answers to the following questions:

- How can credible reporting on these two programs best be achieved?
- What are realistic expectations for measuring the program outcomes?
- Are there information gaps that will need to be filled?

In each case study our aim was to help develop:

- an understanding of potential accountability gaps and the context and factors that may delay or constrain improvement in accountability and results measurement; and
- an appropriate response to public accountability and performance reports, reports on social outcomes, and jointly designed performance management systems of these programs.

### Criteria

Because this was a study of programs at an early stage of development, we did not have formal criteria against which to audit. We did nevertheless have expectations that could be used in a future audit. They derive from our 1997 Report Chapter 11, *Moving toward Managing for Results*. In particular:

- indicators and measures should be clear and concrete; and
- information should be understandable, balanced, attributable, and reliable.

As well, for the National Child Benefit we expected that in the negotiations and in the joint accountability and performance report, the information ultimately would meet the following criteria:

- Data on expenditures and for outcome indicators and evaluations are credible and comparable so that overall outcomes of the NCB can be measured and evaluated. The accountability report informs readers whether financial information has been audited, and whether arrangements are in place to ensure that due care has been taken with respect to the information presented, including data used for performance reporting.
- Reinvestments are within the parameters of the NCB goals and objectives, and represent new programs or enhancements to existing ones.
- There is knowledge of the data gaps and problems that exist and there are plans in place to fix them.
- There are means to monitor and inform all participants and stakeholders about individual reinvestment expenditures, outputs and outcomes, as well as the outcomes of the entire effort.

## **Approach**

We examined relevant departmental documentation and conducted interviews with officials for each of the chosen programs, concentrating on the design and implementation of governance and accountability frameworks. We also reviewed literature on performance and outcome measurement in Canada and elsewhere, as well as transcripts of relevant hearings conducted by the Standing Committee on Public Accounts and the Standing Committee on Human Resources Development and Status of Persons with Disabilities. We also drew on the findings from our work on performance management and measuring results (1997 Chapter 11) and, from our work in this Report on collaborative arrangements (1999 Chapter 5).

## **Study Team**

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## Appendix A

### Auditor General's Related Work

#### Human Resources Development Canada (HRDC)

The case studies are an extension of previous audits that have concentrated on the challenges for HRDC of achieving results and demonstrating accountability in very complex environments. This includes our 1997 Report Chapter 17, A Critical Transition toward Results-Based Management; and more recently our 1998 Chapter 16, Management of the Social Insurance Number, where responsibilities and impacts range widely between the federal and provincial governments and the private sector.

#### Performance reporting

In our 1997 Chapter 11, Moving toward Managing for Results, we said it is important to go beyond merely measuring inputs and outputs.

Meeting the expectations of Canadians for programs that work and finding more cost-effective means of delivering them requires managing for results. When managing for results, ministers, senior officials, managers, staff, central agencies and Parliament make decisions based on what a program is achieving for Canadians — the results that citizens value — and at what cost. In particular, there is a focus on outcomes, that is, the benefits realized. Putting this approach into practice means agreeing on expected outcomes, measuring progress toward them, using the information and reporting results.

#### Quality of provincial information

Our interest in the quality of provincial information is not new. We have been commenting on aspects of interprovincial agreements for many years. For example, 10 years ago we observed that federal officials responsible for the Canada Assistance Plan did not know how much reliance they could place on provincially supplied information. Nor was this problem immediately corrected. In our 1991 Chapter 3 follow-up, we stated that the issue was being addressed but that information to Parliament was still not adequate.

More recently, in our 1996 Chapter 26, Canada Infrastructure Works Program – Lessons Learned, we observed that provincially supplied information had not been verified:

In the majority of files we examined, federal officials endorsed provincial assessments without requiring direct supporting information, or at least ensuring that appropriate information had been provided to, and analyzed by, the province concerned.

The Commissioner of the Environment and Sustainable Development is also concerned about achieving accountability when several jurisdictions are involved. He said in his 1998 Chapter 3, Responding to Climate Change, that while many jurisdictions were involved in climate change issues, ultimately the federal government is accountable for the overall structure:

We believe that undefined and diffused accountability erodes the authority and responsibility of the federal, provincial and territorial governments and their officials and makes it difficult for anyone to measure their respective performance. It also means that accountability for Canada's progress toward its stabilization goal is obscured. Nevertheless, in our opinion the federal government remains accountable to Parliament for establishing an effective management structure to respond to climate change.

## Appendix B

### Historical Context – National Child Benefit

Beginning with a children's income tax exemption in 1918 and universal family allowances in World War II, and continuing throughout the 1960s and '70s, many federal programs such as child care tax credits were specifically designed to improve child welfare. Others such as Medicare and Unemployment Insurance had outcomes that, by improving the situation of parents, clearly benefited their children.

Early social programs of the '40s, '50s, and '60s such as Unemployment Insurance, Old Age Assistance and Family Allowance were direct federal expenditures administered entirely by the federal government. Each such program required an Act of Parliament and, unless funded separately like Unemployment Insurance, required annual appropriations as part of the federal Budget. The Office of the Auditor General can, and did, audit the expenditures as well as the administration of such programs. As well, parliamentarians had opportunities through the Budget debates to question the expenditures and the administration of these programs.

The 1978 revisions to the *Family Allowance Act* increased child allowances but made them taxable. Making child allowances taxable had the effect of targeting the benefit more toward lower and middle income families. From an accountability perspective, the relationship of Parliament and the nature of program delivery remained the same — the program was still an expenditure in the Budget cycle. The Child Tax Credit introduced in 1978 to further supplement the Family Allowance for families of modest means was an even more significant change. Because tax credits form a part of the income tax system, the credit did not require annual review by Parliament; the form of financial assistance was not direct payment but rather forgone revenue, that is, a tax expenditure.

In 1992, family allowances were eliminated completely and replaced by the Canada Child Tax Benefit. One consequence for accountability (as we observed in our 1994 Report Chapter 6, Study of Key Federal Social Programs) was that "because the new Child Tax Benefit is now delivered through the tax system, it is not included in budgetary spending. Thus, it becomes difficult to make comparisons or analyze trends in program spending in this area." In our 1998 Chapter 8, Effectiveness Measurement and Reporting in the Department of Finance (which is responsible for tax policy and evaluations of taxes and tax expenditures), we noted that effectiveness measuring and reporting of the child tax benefit were "insufficient".

Whatever the shortcomings of past child support programs, at least the role and responsibility of the federal government was clear. In the case of the 1992 changes, for example, a budget was presented and debated, and Parliament enacted the necessary changes to the *Income Tax Act* and replaced the *Family Allowance Act*.

#### Current situation

With the National Child Benefit (NCB), accountability is less well defined. Responsibilities are negotiated and shared. Moreover, there is no single piece of legislation that mandates the program. While this means that the potential exists for gaps in accountability, federal and provincial partners are aware of the potential problems and are working to resolve them. The co-operation we received from officials and the documentation we reviewed confirm that the partners in the NCB also wish to see good accountability arrangements in place for this program. However, it is too early to judge that they have succeeded.

#### Policy context: Research results demonstrate importance of early childhood

Over the last 10 years, research has convincingly demonstrated that very early childhood experiences can have lasting impacts, both positive and negative. Moreover, poverty is associated with many of the negative indicators, such as poor health or low birth weights. The government summarized this research in 1997:

Most Canadian children are doing well and are physically, emotionally and socially healthy. Unfortunately, some children are not doing as well. Many experience emotional, behavioural or learning problems that affect school performance and personal development. Others suffer from physical problems such as disease, disability and injury.

Such difficulties can and do affect children being raised in all family situations—in two-parent as well as single-parent families, in every neighbourhood and community throughout the country. But decades of research in Canada and abroad have shown that low family income is strongly linked with these problems. Compared to children from middle- and upper-income families, poor children run a greater risk of inadequate nutrition, mental and physical health problems, poor school achievement and difficulties with the law.

Living on a low income can exert a heavy toll not only on children and their parents but also on the economy and society. Although many low-income children grow up and out of poverty, its harmful effects in childhood can often linger long into their adult years. The costs include increased expenditures for welfare, employment insurance, social services, health care, the courts and the penal system; lost tax revenues; wasted productivity; and missed opportunities for both individuals and society.

### **The 1997 federal Budget**

The 1997 federal Budget announced the goals and major premises for a National Child Benefit (<http://www.fin.gc.ca/budget97/childe/childe.html>). These goals linked a commitment to reduce poverty, with the concern that welfare systems create disincentives for parents to work. The Budget papers explained this as follows:

- Right now, the combined effect of federal and provincial programs is to reduce the child benefits of parents who leave welfare to enter the workforce. Parents should not be put in the position of penalizing their children in order to take a job.
- [The benefit would be directed to working families, who would see their incomes rise. Although the intention was to reduce social assistance by the amount of the benefit] ...the overall income of families on social assistance will be protected.
- In addition to being a win for Canadian children, the National Child Benefit system is a step forward in Canadian federalism, with the federal, provincial and territorial governments seizing on a good idea, setting common objectives and working as partners to secure better lives for our children.
- To accomplish this, an enriched federal benefit along the lines set out above will require provinces and territories to make offsetting reinvestments of provincial funds to assist children in low-income working families.

## Appendix C

### A Comparison – National Child Benefit and Employability Assistance for People with Disabilities

In addition to the characteristics outlined in Exhibit C.1, the National Child Benefit (NCB) and Employability Assistance for People with Disabilities (EAPD) each have the following similarities and differences:

#### Similarities

- No specific legislative act governs either initiative; the parameters are an outcome of federal-provincial agreement.
- First Ministers agreed on the program goals.
- The program is not aimed at all members of the target group, but is primarily focussed on helping those who wish to enter or remain in the work force.
- Program design responsibilities are delegated from First Ministers to Ministers Responsible for Social Services to their officials.
- Provinces are responsible for program delivery (although many have arranged for Revenue Canada to deliver provincial and territorial tax benefits on their behalf).
- The federal government's role is to provide a substantial amount of the funding, to help establish an overall accountability framework, and to work with provinces to ensure that the program meets the basic overall objectives agreed to by the partners.

#### Differences

The differences reflect the fact that EAPD is more like a traditional federal contribution arrangement whereas the NCB is a new kind of arrangement.

- In EAPD, the federal government's financial contribution goes to provinces whose programs meet the mutually agreed criteria. In the National Child Benefit, federal funds go directly to individuals.
- A formal, written multilateral framework for EAPD forms the basis for comprehensive bilateral agreements with provinces. For the NCB, the only bilateral agreements are operational agreements between Revenue Canada and provinces and territories for the transfer of information on recipients of NCB supplements, and administrative agreements to deliver certain tax benefit programs. NCB agreements on matters related to goals, accountability and governance are the public announcements and brochures that all participants approved.
- For EAPD, each province has agreed to deliver its own annual report. HRDC is responsible for undertaking overall evaluations and assisting with individual evaluations, in collaboration with provinces. Federal and provincial officials are already meeting to establish the parameters for this work. There is no commitment yet to a periodic accountability report for the overall program like the joint annual report on the NCB.

Exhibit C.1

Characteristics of the National Child Benefit and Employability Assistance for People with Disabilities

|  | National Child Benefit  | Employability Assistance for People with Disabilities   |
|--|---|---|
| <b>Current Status</b>                              | <p>Implemented on 1 July 1998.</p> <p>Provincial reinvestment plans announced; some have yet to be designed and implemented.</p> <p>Quebec subscribes to principles, has relevant programs, but does not participate formally.</p> <p>Outcome measures are in final stages of design.</p>   | <p>Program started 1 April 1998.</p> <p>Bilateral agreements between federal government and provinces are now signed.</p> <p>Results indicators agreed to in multilateral framework.</p>  |
| <b>Program Delivery and Financing</b>              | <p>Federal tax benefit for low-income families with children.</p> <p>Provincial programs, services, in-kind benefits for low-income working families funded by "reinvestments" of provincial savings on social assistance to families with children.</p>  | <p>Provincial delivery; federal government contributes 50 percent of costs.</p>   |
| <b>Accountability Arrangement</b>                  | <p>Governance and Accountability Framework released in March 1998.</p> <p>Emphasizes public reporting and public accountability rather than government-to-government accountability.</p>  | <p>Multilateral framework provides for results measurement, annual reports by provinces and involvement of persons with disabilities.</p>   |
| <b>Performance Measures and Results Indicators</b> | <p>Outcome measures and performance indicators are still being designed. Consultations were undertaken to determine if there is broad support for the proposed performance indicators.</p> <p>The indicators are intended to measure:</p> <ul style="list-style-type: none"> <li>• reduction in depth of poverty;</li> <li>• increased parental attachment to labour force;</li> <li>• attributable improvements in child welfare; and</li> <li>• reductions in overlap and duplication.</li> </ul> | <p>Primary indicators include:</p> <ul style="list-style-type: none"> <li>• number of people employed or sustained in employment;</li> <li>• number of people actively participating in or successfully completing programs;</li> <li>• number of people on waiting lists; and</li> <li>• savings to income support programs as a result of increased earnings through employment.</li> </ul> |
| <b>Evaluation</b>                                  | <p>First Accountability and Performance Report scheduled for release in early 1999. Annual publication of the Report is mandatory under the Governance and Accountability Framework. Evaluations are envisioned, but no agreement yet on approach and funding.</p> <p>Ministers Responsible for Social Services approved a report outline in October 1998.</p> <p>All jurisdictions (except Quebec) will report on a designated set of indicators.</p>  | <p>Agreements require evaluation. Partners have agreed to assess types of data being collected, costs and benefits of evaluation, options for how, when, and by whom evaluations will be performed, and how they will be funded.</p>  |
| <b>Annual Cost</b>                                 | <p>Federal contribution for NCB supplement: \$850 million (1998–99), increasing to \$1.7 billion (2000–01).</p> <p>Provincial-territorial reinvestment commitment for June 1998–July 1999: \$359 million (Quebec excluded).</p> <p>First Nations commitment: \$27.8 million.</p> <p>Reinvestments will increase as the NCB supplement increases.</p>  | <p>\$193 million plus matching amounts from provinces.</p>  |

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**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 7**  
The Atlantic Groundfish Strategy:  
Contributions and Grants

**Chapter 8**  
The Atlantic Groundfish Strategy:  
Follow-up

**April 1999**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 7**

The Atlantic Groundfish Strategy:  
Contributions and Grants

**Chapter 8**

The Atlantic Groundfish Strategy:  
Follow-up



**April 1999**

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# Chapter 7

## The Atlantic Groundfish Strategy

### Contributions and Grants

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

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# The Atlantic Groundfish Strategy

## Contributions and Grants

### Main Points

**7.1** We have little assurance that all contributions under The Atlantic Groundfish Strategy (TAGS) were used for their intended purposes. These were part of TAGS active labour adjustment measures managed by Human Resources Development Canada (HRDC).

**7.2** Most of the deficiencies noted in the audit relate to a lack of diligence in assessing project proposals and signing contribution agreements, as well as lack of monitoring by the Department.

**7.3** Many of the files contained no project proposals; in others, proposals were not sufficiently developed to allow proper assessment. Some agreements lacked complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. There was little evidence of on-site monitoring visits to examine expense records.

### Background and other observations

**7.4** The Atlantic Groundfish Strategy, in effect from 16 May 1994 to 29 August 1998, comprised measures to assist those affected by the groundfish moratorium. About \$150 million of the \$1.9 billion allocated to TAGS was spent on active labour adjustment measures such as training, mobility assistance, wage subsidies and employment bonuses.

**7.5** Those expenditures were not covered in our audit of The Atlantic Groundfish Strategy, reported in Chapter 16 of our October 1997 Report. Following the publication of that Report, the House of Commons Standing Committee on Fisheries and Oceans requested that we audit the expenditures.

**7.6** Our Office and the Internal Audit Bureau (IAB) of Human Resources Development Canada agreed that IAB would audit the grants and contributions made under TAGS. We closely monitored and reviewed that audit so we could rely on the findings for this chapter.

**7.7** TAGS had increased the caseload of officers by some 40,000 participants over a short period of time. This created pressure to identify, approve and contract for an unprecedented number of projects.

**7.8** Several contributions went to projects that were not clearly related to TAGS. More than half of the agreements were signed after projects had begun. Expenditures were reimbursed without supporting documentation for the claims. For more than half of the projects reviewed, there was no evidence that the files had been closed, although most of those projects had been completed more than two years earlier.

**Overall, Human Resources Development Canada agrees with the findings of the audit and recognizes that a number of important points and concerns are raised in the chapter. Actions undertaken to address the issues include the development of new policies and procedures, training for managers and staff and, in new initiatives, securing resources to ensure sufficient monitoring.**



## Introduction

**7.9** The Atlantic Groundfish Strategy (TAGS) came into effect on 16 May 1994 (terminated on 29 August 1998), with the objective of restructuring the fishing industry in Atlantic Canada to make it economically viable and environmentally sustainable. This strategy comprised measures to assist individuals and communities affected by the groundfish moratorium. It applied to fishing areas in five provinces: Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island and Quebec.

**7.10** Human Resources Development Canada (HRDC) was responsible for the labour adjustment component of TAGS, a series of active measures aimed at adjusting affected workers out of the fishery and enhancing the profession of those fishers who remained active in the fishing industry. Exhibit 7.1 outlines these measures and indicates the amount of expenditures spent on each of them.

**7.11** A key objective of the government was to ensure that the communities affected by the groundfish moratorium had sufficient funds to maintain essential economic and social activities. To that end, Human Resources Development Canada gave priority to income support for affected workers. To be eligible for income support, fishers and plant workers had to agree to participate in the active labour adjustment measures.

**7.12** As TAGS evolved and participation proved higher than had been forecast, funds designated for the active labour adjustment measures had to be transferred twice to income support (in January 1995 and July 1996). As a result, the requirement to participate in these measures was gradually abandoned. The last projects under TAGS were approved more than two years ago.

**7.13** TAGS increased the caseload of officers by some 40,000 participants over a short period of time. This created

pressure to identify, approve and contract for an unprecedented number of projects.

**7.14** Moreover, given the lack of time available to plan and design the labour adjustment measures, HRDC developed some new options but mostly used those existing under another of its programs at the time, the Canadian Jobs Strategy, with little adaptation to reflect TAGS objectives. Furthermore, policies were introduced and changed as TAGS evolved, and so local managers had to be flexible and adapt accordingly. While implementing TAGS, the Department was also modifying its programs and reducing its work force.

**7.15** Aspects of the labour adjustment component were discussed in our October

Exhibit 7.1

### Active Labour Adjustment Measures

May 1994 to September 1998

| Measures                             | Expenditures<br>(\$ millions) |
|--------------------------------------|-------------------------------|
| <b>Contributions</b>                 |                               |
| Mobility Assistance                  | 2.2                           |
| Employment Assistance                | 15.7                          |
| Delivery Assistance                  | 8.4                           |
| Self-Employment Assistance           | 0.4                           |
| Job Development                      | 0.2                           |
| Training:                            | 90.4                          |
| • Canada Employment Centre Purchases |                               |
| • Project-based Training             |                               |
| • Workplace-based Training           |                               |
| • Co-ordinating Groups               |                               |
| • "Green Projects" – Training        |                               |
| Job Opportunities                    | 4.4                           |
| Community Opportunities Pool         | 1.3                           |
| "Green" Projects – Regular           | 20.3                          |
| Portable Wage Subsidies              | 2.6                           |
| <b>Grants</b>                        |                               |
| University Tuition                   | 1.0                           |
| Employment Bonus                     | 1.9                           |
| <b>Total</b>                         | <b>148.8</b>                  |

Source: Internal Audit Bureau, Human Resources Development Canada

1997 Report Chapter 16 on TAGS. Following the tabling of our Report, the House of Commons Standing Committee on Fisheries and Oceans passed a motion requesting that our Office audit the expenditures made under the grants and contributions administered by HRDC for the active labour adjustment measures. A copy of the Committee's request is presented as an Appendix to this chapter (page 7–14). These expenditures represent about \$150 million of the \$1.9 billion allocated to TAGS.

#### Focus of the audit

**7.16** Our objective was to respond to the request of the Standing Committee on Fisheries and Oceans and to provide assurance that projects funded under the active labour adjustment measures had met TAGS criteria; that they had been properly managed, controlled and monitored; and that the grants and contributions had been used for their intended purposes. Exhibit 7.2 provides a brief definition of grants and contributions.

#### Exhibit 7.2

##### Grants and Contributions – Definition

###### Transfer Payments

Grants and contributions are part of the category of expenditures known as transfer payments. These are transfers of money from the federal government to individuals and to organizations of various types, including businesses and other levels of government.

###### Grants

Grants are unconditional transfer payments for which eligibility and entitlement may be verified. If an individual or organization is eligible for a grant, the appropriate payment can be made without requiring the recipient to meet any future conditions.

###### Contributions

The payment of a contribution is subject to performance conditions that are specified in a contribution agreement. The recipient must continue to show that these conditions are being met in order to be reimbursed for specific costs over the life of the agreement. The government can also audit the recipient's use of the contribution, whereas this is usually not a requirement for a grant.

**Source:** Policy on Transfer Payments, Treasury Board of Canada Secretariat

**7.17** The Internal Audit Bureau (IAB) of Human Resources Development Canada had already planned an audit of grants and contributions provided by the Department. We agreed with IAB that it would conduct the audit, and that we would monitor and review its work to assess its relevance to our objectives and to determine whether the supporting evidence was appropriate for our purposes.

**7.18** Further details on our audit can be found at the end of the chapter, in **About the Audit**.

## Observations

**7.19** From our review of IAB's audit, we determined that the work was done well and that it followed professional standards. The audit results are presented in a report entitled "Audit of TAGS Grants and Contributions". At this writing, the final report had been submitted to HRDC management for approval.

**7.20** The IAB audit team reviewed 193 project files, including 167 contribution agreements and 26 grants. It also met, where possible, with sponsors and with employees at Human Resource Centres of Canada. Four general criteria were used:

- The contracting process should comply with Treasury Board and HRDC standards for grants and contribution agreements.
- Projects should be managed effectively and be monitored operationally and financially.
- Sponsors should comply with the terms and conditions of their agreements.
- Grants and contributions should be paid only to entitled individuals or organizations, and contributions should be used solely for their intended purposes.

**7.21** The audit identified important issues regarding the management of the

TAGS grants and contributions in this sample. The overall impact of the active measures on the fishers and plant workers of the affected regions was not considered in this audit. This has been addressed through program evaluation studies on TAGS. Exhibit 7.3 and the following observations present the main results of the IAB audit.

## Weak Management, Control and Monitoring of TAGS Contribution Agreements

### Proposals were not fully analyzed

**7.22** One third of the files examined contained no proposal to support the project. Of the 111 files that did contain a proposal, 33 percent did not meet the criteria for the labour adjustment measure under which they had been approved. In most files, it was impossible to determine how the selection criteria had been applied. As a rule, there was nothing in the file to indicate why a project had been recommended or selected.

**7.23** Few files contained enough information for the audit to verify whether the project sponsor had been entitled to the contribution under the measure for which the proposal had been submitted. Moreover, there was no indication that sponsors had been checked to see if they had any outstanding debt to the Crown, or were already receiving funds for similar activities.

### Many projects were not clearly linked to TAGS

**7.24** Many agreements did not state clear objectives for the project, and did not identify results that were measurable. In many cases, there was no clear indication that the project targeted TAGS participants, and several proposals did not state objectives related to TAGS.

**7.25** Certain projects, particularly where courses were purchased, included TAGS and non-TAGS participants but

expenditures for both groups were funded through TAGS alone, instead of under the proper funding authorities in proportion to TAGS and non-TAGS participants.

### Contribution agreements were undermanaged

**7.26** In general, pro forma agreements were used that had been developed for the

Exhibit 7.3

#### Audit of TAGS Grants and Contributions Sample Results

| Contributions   | Non-compliance<br>(percentage of files) |
|---|---|
| <b>Proposals</b>                                      |   |
| Proposal on file                                      | 34                                      |
| Linkages with TAGS                                    | 23                                      |
| Compliance with eligibility criteria                  | 33                                      |
| Inclusion of estimates                                | 42                                      |
| Verification of debts owing to HRDC                   | 80                                      |
| Verification of other contracts with federal agencies | 84                                      |
| Supporting documentation for selection                | 83                                      |
| <b>Agreements</b>                                     |   |
| Signature prior to effective date                     | 53                                      |
| Clear project objectives                              | 26                                      |
| Participant eligibility criteria clearly defined      | 43                                      |
| Establishment of progress measurements                | 66                                      |
| Amendments explained                                  | 43                                      |
| <b>Monitoring of agreements</b>                       |   |
| Review by supervisor                                  | 47                                      |
| On-site monitoring of financial activities            | 76                                      |
| • Remedial action taken                               | 19                                      |
| On-site monitoring of operational activities          | 74                                      |
| • Remedial action taken                               | 10                                      |
| Off-site monitoring                                   | 51                                      |
| • Remedial action taken                               | 15                                      |
| File closed   | 52                                      |
| <b>Payments</b>                                       |   |
| Claims documented                                     | 34                                      |
| Errors corrected                                      | 12                                      |
| Payment according to terms and conditions             | 21                                      |
| Payment within allowable limits                       | 12                                      |
| <b>Grants</b>   |   |
| Payment according to eligibility criteria             | 15                                      |

Source: Internal Audit Bureau, Human Resources Development Canada

In most files, it was impossible to determine how the selection criteria had been applied.

Canadian Jobs Strategy, and so the stated purpose of the agreement reflected that program and not The Atlantic Groundfish Strategy. None of these agreement forms were modified to reflect TAGS objectives.

**7.27** In some cases, funds provided for a project were attributed to a measure other than the one under which the agreement had been signed. These changes were reflected on a schedule to the agreement that identified the project's eligible costs, but with no explanations for the change. Moreover, the changes were not made in the body of the agreement that spells out for the sponsor the terms and conditions that apply. There were unexplained differences between agreements, particularly in their clauses on objectives, sponsor/co-ordinator/ employer eligibility, costs, eligibility of participants, recruitment of participants, training, payments, GST and disposition of assets.

**7.28** Terms and conditions of one measure were sometimes confused with those of another and applied under the wrong agreement. For example, agreements under the Delivery Assistance measure were used to contract for counselling services in remote areas, but the correct measure for those services was Employment Assistance. The Portable Wage Subsidies and Job Opportunities measures were similarly confused.

**7.29** Whether it was a case of attributing the funds to the wrong measure or of using the wrong measure, the result was that the wrong terms and conditions were communicated to the project sponsor. This makes it difficult to determine under what criteria the projects were approved, managed, controlled and monitored. It also puts into question the reliability of reports on the funds used for each measure.

**7.30** More than half of the agreements were signed after the project started. In one case, the project officer issued a

"prior commitment letter" to the sponsor before the agreement was approved, allowing the project to proceed without a formal agreement. In another case, an agreement for \$141,200 was signed after the project had been completed and the claim for reimbursement received. In addition, payments of over \$50,000 were made to a few projects with no signed agreement.

**7.31** The auditors could not verify the authenticity of some signatures in all HRDC regions. Moreover, few files contained evidence that the sponsor signatories were signing officers with their respective organizations.

**7.32** A project established at \$463,000 was split into four separate projects so that the local manager could sign the agreements. This practice does not comply with the delegation of authority.

**7.33** Few projects were subject to on-site operational or financial monitoring and only about half the files showed evidence of any off-site monitoring (phone calls, memos and so on). In particular, one company received in excess of \$500,000 over the life of a project, went into receivership and was closed down before the project was completed. There was no evidence that the project had been monitored. Indications of problems existed early in the life of the project, and monitoring could have prevented the loss of more than \$100,000 that had been advanced to the sponsor but was not accounted for.

**7.34** Some recipients of Self-Employment Assistance continued to receive payments for several months after their businesses had closed down. In another case, an employer under a Portable Wage Subsidy agreement continued receiving payments after the employee for whom the contribution was intended had become a partner in the company.

**7.35** In most cases, expenditures were reimbursed although the claims had been

submitted without supporting documentation. In some cases, errors in claims went undetected and so payments were made for expenses that were not covered by the agreement.

**7.36** Although most of the audited projects had been completed for almost two years, nearly half the files showed no evidence of the required close-out procedures. This made it impossible to determine, among other things, if the sponsor had accounted for all advances received, if overpayments had been made and had been recovered, if assets had been disposed of as directed, and if the project had achieved the expected results.

**7.37** In summary, the review of the files found serious weaknesses in the management, monitoring and control of contribution agreements. Proposals did not exist or were not sufficiently developed to allow proper evaluation. Some agreements did not contain complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. Expense claims were not supported by documentation, and there was very little evidence of on-site monitoring visits to examine expense records. Objectives and expected results of projects were generally not clear. In general, the outcome of projects was not documented or known.

## Grant Payments Generally Complied

**Applicable policies and procedures were followed**

**7.38** Only two of the labour adjustment measures used grants, University Tuition and Employment Bonus. The audit found that in two cases the Employment Bonus was paid prior to the completion of the 52-week employment period. The employment counsellor was responsible for determining the eligibility of a participant and the amount of the bonus to be paid.

In most cases, there was a request from the employment counsellor to the project officer to initiate payment of the grant and some files contained letters of understanding that detailed the eligibility criteria for the bonus. Few files, however, contained the participant's information form and showed how the bonus was calculated.

## Conclusion and Recommendation

**7.39** We concur with the Internal Audit Bureau (IAB) that it is not possible to certify that most of the audited projects funded under various active labour adjustment measures met TAGS criteria; that they were properly managed, controlled and monitored; and that the grants and contributions were used for their intended purposes.

**7.40** We are concerned about the findings of this audit. They clearly indicate a lack of diligence in assessing proposals and signing agreements, and a lack of monitoring.

**7.41** These weaknesses could be a reflection of the circumstances that prevailed when TAGS was implemented, but that does not explain them away. We believe that the observations made in this chapter could apply to other situations. We note, however, that IAB is continuing its audit of active grants and contributions and has recommended that lessons learned from this audit be used to strengthen the management of grants and contributions in general.

**7.42** Labour adjustment measures have been substantially modified. Several of the measures reviewed in the audit still exist and are applied in a context where greater authority has been delegated downward in the Department, when not wholly vested in the provinces. Although TAGS has now been terminated, the possibility remains that new partnerships may be entered into with the same sponsors.

**Few projects were subject to on-site operational or financial monitoring.**

**We are concerned about the findings of the audit conducted by the Internal Audit Bureau.**

**7.43 Under the current labour adjustment programs, Human Resources Development Canada should ensure that:**

- **contribution proposals are properly developed and are reviewed carefully;**
- **analyses and the reasons for decisions are clearly documented; and**
- **contribution agreements are adequately monitored.**

*Department's response:* Human Resources Development Canada has reviewed the chapter produced by the Office of the Auditor General. Overall, HRDC agrees with the findings; however, the urgency of addressing, with constrained resources, the immediate needs of the 40,000 TAGS clients in the early stages of the implementation cannot be understated.

*Where practical, HRDC will address cases referred to in the internal audit report that require further action.*

*HRDC recognizes that the chapter raises a number of important points and concerns related to the managing, controlling and monitoring of TAGS grants and contribution agreements. As a result, the positive and valuable lessons learned from this audit are serving as a basis to assist HRDC to better manage, control and monitor grants and contribution agreements in other programs. In fact, HRDC has taken action: to develop new policies and procedures, to provide training for managers and staff, and to secure resources in new initiatives to ensure sufficient monitoring. Some of these actions are reflected in Chapter 8 of this Report, The Atlantic Groundfish Strategy: Follow-up.*



## About the Audit

### Objective

The objective of the audit was to respond to a request made by the House of Commons Standing Committee on Fisheries and Oceans and to provide assurance that projects funded under TAGS active labour adjustment measures had met TAGS criteria; that they had been properly managed, controlled and monitored; and that the grants and contributions had been used for their intended purposes.

### Approach

The Internal Audit Bureau (IAB) of Human Resources Development Canada had planned an audit of grants and contributions provided by the Department. We agreed with the IAB that it would conduct the audit, and we would monitor and review its work to assess its relevance to our objectives and to determine whether the supporting evidence was appropriate for our purposes.

We expected:

- that the internal audit work would be planned and conducted in accordance with generally accepted auditing standards;
- that audit reports would properly outline findings, be discussed with management, and be submitted to the Deputy Minister or the Audit Committee in a timely manner.

The criteria used for the audit by IAB are set out in paragraph 7.20 of the chapter.

### Scope

Our audit of grants and contributions involved reviewing the work done by the IAB as it evolved. We conducted additional reviews where necessary.

### Audit Team

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GEORGE BAKER, M.P.  
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October 23, 1997  
O T T A W A

Mr. L. Denis Desautels, FCA.,  
Auditor General of Canada  
240 Sparks Street  
Ottawa, Ontario  
K1A 0G6

Dear Mr. Desautels:

During your testimony before the Committee on October 21, 1997, you advised us that you have the mandate and the ability to conduct a further, or more in-depth audit, to determine "where the money went" in regard to the list of TAGS-funded items provided by "The Help Group":

Please accept this letter as an official request on behalf of the Steering Committee of Fisheries and Oceans to have said audit conducted at your earliest possible convenience.

I would appreciate hearing back from you as soon as possible as to what sort of a time frame this audit will involve so that I may report back to the Steering Committee.

Yours truly,

A handwritten signature in dark ink, appearing to read "George Baker".

George Baker, M.P.,  
Chairman,  
Fisheries and Oceans Committee

lab/GB



## Chapter 8

### The Atlantic Groundfish Strategy

Follow-up

*The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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# The Atlantic Groundfish Strategy

## Follow-up

### Main Points

**8.1** We believe the government's efforts to implement the recommendations in our October 1997 Report Chapter 16 on The Atlantic Groundfish Strategy (TAGS) have been satisfactory.

**8.2** New fishery restructuring and adjustment measures are being implemented. In contrast to our observations of 1997, the eligibility criteria for the new measures are clear, logical and applicable. The accountability framework established for the measures corrects the shortcomings we had identified in TAGS: it clearly defines the responsibilities of the organizations involved, sets out an overall strategic plan and provides for a formal co-ordination mechanism.

#### Background and other observations

**8.3** The objective of TAGS (1994–98) was to restructure the fishery industry in Atlantic Canada to make it economically viable and environmentally sustainable.

**8.4** Close to \$1.9 billion was allocated to TAGS. Most of the funding was used to provide income support to the some 40,000 fishers and plant workers affected by the groundfish moratorium.

**8.5** In October 1997, we urged the government to carefully examine the impact of the decisions made under TAGS in order to benefit from the valuable lessons that could be learned.

**8.6** This follow-up examined progress to date in addressing our 1997 recommendations. Some of our observations in this chapter relate to TAGS and others to the Atlantic fishery restructuring and adjustment measures announced in June 1998.

**8.7** Human Resources Development Canada completed an evaluation of the labour adjustment component of TAGS. It also reviewed the duration of eligibility of TAGS participants. The departments involved in implementing the new measures now have considerable information on the profile of the targeted populations, in sharp contrast to the situation that prevailed when TAGS was developed.

**8.8** We believe the orderly way in which the departments are implementing the new fishery restructuring and adjustment measures represents satisfactory progress.



## Introduction

**8.9** In our October 1997 Report, we urged the government to carefully examine the consequences and impacts of the decisions made under The Atlantic Groundfish Strategy (TAGS) in order to benefit from the valuable lessons that could be learned. That audit covered the measures established by Fisheries and Oceans and Human Resources Development Canada (HRDC) to account for the delivery of TAGS, and the labour adjustment component administered by HRDC.

**8.10** As our 1997 Report was going to press, HRDC initiated consultations on the impact that the end of TAGS would have on provinces, communities, families and individuals in Atlantic Canada and Quebec. The results of these consultations were presented in the Post-TAGS Review Report (Harrigan Report).

**8.11** According to the report:

One of the strongest messages from the consultations is that government policy makers must avoid a 'one-size-fits-all' approach when they consider options for the post-TAGS environment. The situation differs greatly from place to place, influenced by such factors as the relative strength of the local and regional economies or the availability of alternative employment, either inside or outside the fishery.

**8.12** For its part, the Standing Committee on Fisheries and Oceans held a series of hearings on fisheries management and TAGS. In March 1998, it tabled the Baker Report in the House, recommending that TAGS be extended to May 1999 along with the early retirement and voluntary licence retirement programs wherever fishing capacity could be reduced. Other recommendations concerned the creation, with community input, of a federally funded infrastructure and job diversification program directed

toward those most affected by the collapse of the Atlantic groundfish fishery.

**8.13** TAGS, which had been aimed at restructuring the fishery industry in Atlantic Canada to make it economically viable and environmentally sustainable, ended on 29 August 1998.

### Fishery restructuring and adjustment measures

**8.14** On 19 June 1998, the government announced a series of measures designed "to provide individuals with options for their future, to help fishing communities diversify their economies and to encourage and capitalize on opportunities in a new economy." Some of the measures apply to communities and individuals not only in Atlantic Canada and Quebec but also on the West Coast.

**8.15** The objectives of the restructuring and adjustment measures are to:

- bring closure to TAGS;
- continue the restructuring of the Atlantic groundfish fishery;
- conserve and protect West Coast salmon stocks;
- assist individuals and communities with adjustment; and
- ensure balance and equity between regions.

The government has said that these objectives are to be achieved in consultation with provincial governments, where required.

**8.16** A total of \$760 million will be allocated to implement the measures on the East Coast. At the time of the announcement, the Minister of Fisheries and Oceans indicated that Atlantic groundfish stocks would take many years — possibly decades — to rebuild, and that even then the sector would not be able to support the same number of fishers and fishery workers.

**The Atlantic  
Groundfish Strategy  
ended on 29 August  
1998.**

**8.17** The measures offer a variety of initiatives to help people who permanently exit the fishery prepare for new opportunities. They focus on long-term strategies for human resource and community economic development that equip individuals and communities with the skills and assistance they need to prepare for life beyond the fishery. Exhibit 8.1 lists the measures that apply to the East Coast and shows the funds allocated to each over several years.

**8.18** When the government announced the measures, it stressed that they were to be finalized in consultation with provinces and stakeholders. It emphasized that the federal government alone could not address these issues: governments, industry, unions and individuals would have to work together to find lasting solutions to these challenges.

**8.19** Overall, the new fishery restructuring and adjustment measures are similar to the initiatives offered under TAGS. However, they do differ in some respects: they take into account individuals and communities on the West Coast as well; there is no ongoing income support; participation of eligible individuals is voluntary; and they are not linked by a common objective — each measure has its own objective.

## Focus of the follow-up

**8.20** The purpose of the follow-up was to assess the progress made in addressing the observations and recommendations in our October 1997 Report Chapter 16 on The Atlantic Groundfish Strategy. HRDC agreed with our recommendations and, in August 1998, submitted a report to the Standing Committee on Public Accounts on the actions it had taken.

**8.21** Two of our recommendations applied directly to TAGS and four others looked to the future. This follow-up focussed on action related to the new fishery restructuring and adjustment measures. Further details on the scope and criteria of our work are provided at the end of the chapter, in **About the Follow-up**.

## Observations

### TAGS Recommendations Addressed

#### A program evaluation of good quality was conducted

**8.22** In our October 1997 chapter, we recommended that HDRC continue its efforts to evaluate the labour adjustment component of TAGS and report on the results, thus contributing to an enlightened discussion of all programs of this type that might be considered in the future.

**8.23** The Department completed its evaluation and released its final report in April 1998. We found that for the most part, the evaluation asked the right questions and formulated them appropriately. The evaluation also provided valuable answers to those questions. Some observations supported elements of TAGS and others were critical of its results, objectives and implementation. The evaluation made several observations that could be useful to the Department in the development of new programs.

Exhibit 8.1

#### Fishery Restructuring and Adjustment Measures – East Coast

| Measures                                 | Funding<br>(\$ millions) |
|--|--------------------------|
| Licence retirement                       | 250.0                    |
| Final cash payment – TAGS income support | 164.5                    |
| Adjustment measures                      | 150.5                    |
| Economic development measures            | 100.0                    |
| Early retirement                         | 95.0                     |

## Duration of eligibility of TAGS participants was reviewed

**8.24** We recommended that HRDC ensure that the review of eligibility of TAGS participants in the Newfoundland, Prince Edward Island and Nova Scotia regions be completed as soon as possible; and that it consider whether the review should be extended to all TAGS participants. The purpose of that recommendation was to ensure, through a uniform review of the supporting documentation, that the eligibility criteria had been applied equitably.

**8.25** The Department agreed with the recommendation and undertook to complete the review of eligibility files for all regions covered by TAGS. The files reviewed were those of participants whose duration of eligibility was less than five years, the group in which errors were most likely to have occurred. Fifty-two percent of some 40,000 TAGS participants fell into this category.

**8.26** At the time of our follow-up, 97 percent of the files identified for review had been completed. We are satisfied with the rigour of the review, and the results confirm that there had been a very high rate of error.

## Improvements Evident

### Better information was used in developing the new measures

**8.27** We had also recommended that the government ensure that for initiatives of this magnitude, departments have enough time to develop strategies that take into account completed analyses and possible options. In its August 1998 report to the Public Accounts Committee the Department stated:

The *Post-TAGS Review Report*, along with other reports and studies, such as the Auditor General's Report, The East Coast (Baker) Report, work done on the *Employment Insurance Act* Part II, the Formative Evaluation of

TAGS and the Final Evaluation of TAGS, served as a basis in formulating possible options to address the post-TAGS situation.

**8.28** In May 1997, the government announced that it would examine the impact of the end of TAGS on individuals, communities and provinces. The Post-TAGS Review Report (Harrigan Report), released in January 1998, presented the results of that review. The consultations with interested parties that were part of the review provided indications of not only the needs to be addressed but also possible directions and options.

**8.29** Further, in October 1997 HDRC conducted an analysis of the population affected by TAGS, particularly those who would still be eligible when it ended. The Post-TAGS Review Report presented the results of that analysis as well.

**8.30** The departments now have access to more specific data for establishing the profile of target clients, which was not the case when TAGS was being developed. In fact, as shown by the analyses conducted for the Post-TAGS Review Report, it is possible to establish precisely the number of individuals who may be eligible for different measures, their place of residence, level of education, age and family status. The various studies that were conducted, including those for the program evaluation, have contributed to this improved information and made possible more accurate forecasts.

**8.31** Our review of the supporting documents indicated that the new measures were developed on the basis of completed analyses and took into account various options.

### The new measures were launched in an orderly way

**8.32** We had recommended that the government ensure that any future strategy of this magnitude be launched in a systematic way. In its response to the

The files reviewed were those of participants whose duration of eligibility was less than five years, the group in which errors were most likely to have occurred.

Public Accounts Committee, the Department indicated that in establishing the new fishery restructuring and adjustment measures it had considered the lessons learned from the implementation of TAGS.

**8.33** It pointed out that interdepartmental meetings are being held on a regular basis, thereby ensuring a co-ordinated, systematic and consistent approach to the implementation of the measures. An operational plan had also been developed that outlined key activities, indicated who would be responsible for each, and provided specific time frames. We verified that this response was accurate.

**8.34** Consultations on several of the measures announced last June were held with the provinces, unions and other stakeholders before the measures were finalized, and their details were not announced until the end of July. Negotiations on the early retirement package are ongoing, as this is a federal-provincial cost-shared program. At this writing, agreements had been signed with Newfoundland, Nova Scotia and Prince Edward Island.

**8.35** The adjustment measures comprise several components, including self-employment, new skills development, wage subsidies, term job creation and mobility assistance. Delivery of the employment benefit and support measures under Part II of the *Employment Insurance Act* has been devolved to two of the five provinces. Agreements have to be negotiated to offer these services (except for the term job creation component, which is delivered by the federal government) to clients who are eligible for employment insurance. Negotiations with one of those provinces is under way.

**8.36** The fact that the various measures are to be implemented in sequence could be seen as limiting the choices available to clients. However, our review found that suitable mechanisms

have been established to avoid that possibility.

**8.37** As part of our follow-up, we visited the Newfoundland Region and some Human Resource Centres of Canada to determine whether staff had adequate information and tools to implement the new measures. We observed that the staff had access to clear information and to guidelines. These offices, like headquarters, are following an operational plan that outlines the activities, indicates who is responsible for each, and provides specific time frames. This plan is closely followed and updated regularly.

**8.38** In our view, the implementation of measures under HRDC's responsibility is moving forward in an orderly way.

#### **Eligibility criteria are tailored to the measures**

**8.39** In 1997, we recommended that given the problems encountered in applying TAGS eligibility criteria, future initiatives use criteria that are clear, logical and applicable.

**8.40** In its response to the Public Accounts Committee, the Department stated:

To be eligible for the newly announced fishery restructuring and adjustment measures for the Atlantic groundfish industry, you must have been eligible for TAGS. This information currently exists in TAGS systems. In addition, other than for the early retirement measure, individuals will not be required to complete an application to access the measures offered, nor will there be any need for an assessment of eligibility to be undertaken.

Since then, a number of criteria have been modified or improved as a result of the consultations with the provinces and various stakeholders.

**8.41** The measures address different populations. For example, the final cash payment applies only to individuals who

were eligible for TAGS on 29 August 1998. The early retirement measure is available only to individuals who were between the ages of 55 and 64 on 31 December 1998 and were eligible for TAGS on 1 January 1998. The licence retirement measure is open to groundfish licence holders who have vessels under 65 feet. Priority will be given to core fishers whom Fisheries and Oceans had identified as part of the fishery of the future, and to TAGS recipients. However, recipients who are eligible for these measures may choose only one of them.

**8.42** Mobility assistance on the East Coast is available to eligible TAGS participants, including those whose benefits ran out before 29 August 1998. Individuals who took early retirement, agreed to retire their licence or received an employment bonus under TAGS are not eligible. Nor are those who have already moved to a new community outside the five regions covered by TAGS. Clients who have taken early retirement under the new fishery restructuring and adjustment measures are also excluded.

**8.43** Priority for term job creation in the East Coast is given to former TAGS clients. This component is also offered to unemployed residents of the communities affected by the collapse of the Atlantic groundfish fishery. In participating, the target population will obtain insurable employment that will assist them to become eligible for employment insurance and therefore qualify for the benefits and support measures offered under the Employment Insurance program.

**8.44** To be eligible for self-employment, skills development and wage subsidies, individuals must be former TAGS participants. Those who opted for early retirement, licence retirement or the employment bonus under TAGS or early retirement under the fishery restructuring and adjustment measures are not eligible.

**8.45** The information required to evaluate eligibility for these various

measures is accessible through the systems of the departments involved. Clear, logical and applicable criteria have been established.

#### **Formal measures have been established to ensure accountability**

**8.46** In 1997, we observed major weaknesses in the accountability framework for TAGS that had an impact on value received for the money expended. Some of these weaknesses were as follows: the responsibilities of the organizations charged with developing and implementing TAGS were not clearly defined and agreed upon in a memorandum of understanding; no integrated strategic plan was developed; there was no formal mechanism for co-ordinating activities; and none of the information presented to Parliament made it possible to determine the progress made toward achieving the objectives of TAGS. We recommended that in any future strategy involving a number of federal organizations the government institute formal measures to ensure accountability for the strategy as a whole.

**8.47** In its response to the Public Accounts Committee, HRDC noted that work had begun on drafting a memorandum of understanding (MOU) among the departments and organizations responsible for implementing the Atlantic and West Coast fishery restructuring and adjustment measures. The MOU has now been signed by all parties.

**8.48** The parties to the MOU are Fisheries and Oceans, Human Resources Development Canada, the Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions, Western Economic Diversification Canada and Indian and Northern Affairs Canada.

**8.49** The MOU sets out the roles and responsibilities of each federal department and agency. Its objective is to provide a framework for the departments to co-ordinate their efforts, while recognizing the specific responsibilities of

**Clear, logical and applicable criteria have been established.**

**Sufficient information  
was available to  
develop the new  
measures.**

each in implementing the individual measures. The MOU provides for the creation of a Steering Committee to serve as the formal co-ordination mechanism, and regional committees.

**8.50** The MOU provides for an implementation schedule, a financial management framework, an accountability framework, exchange of information and evaluation of the measures' results. It is too early, however, to assess whether all of its aspects will work.

## **Conclusion**

**8.51** Our review established that sufficient information was available to develop the new measures. The review of the impact of the end of TAGS, the Baker Report and the studies by the Program Evaluation Directorate provided useful

information to identify options, analyze their potential impacts and make choices.

**8.52** Our review of the eligibility criteria adopted for the various measures found that they were clear, logical and applicable. We also determined that HRDC had thoroughly reviewed the eligibility of TAGS participants with a duration of benefits under five years and that all cases were dealt with on a consistent basis.

**8.53** Particular attention has been given to the launching of the new measures. The proposed accountability framework for the various measures is appropriate. Thus, in our opinion, efforts so far to avoid the uncertainty that surrounded TAGS have been satisfactory.



## About the Follow-up

### Objective and Criteria

Our objective was to follow up on the progress made in response to the following recommendations as set out in our October 1997 Report Chapter 16 on The Atlantic Groundfish Strategy (TAGS):

- In contemplating any future initiatives of TAGS magnitude, the departments should have enough time to develop strategies that take into account completed analyses and possible options.
- Future strategies of TAGS magnitude should be launched in a systematic way.
- Eligibility criteria for any similar strategy should be clear, logical and applicable.
- The review of the duration of eligibility for TAGS should be completed as soon as possible.
- Human Resources Development Canada (HRDC) should evaluate the labour adjustment component of TAGS and report the results.
- Formal measures should be put in place to ensure overall accountability for any similar strategy.

### Scope

Our follow-up consisted of a review of the action plan submitted by HRDC to the Standing Committee on Public Accounts in response to our 1997 observations and recommendations. We interviewed some government officials and reviewed supporting documentation. The follow-up was carried out primarily at HRDC headquarters and in its Newfoundland region as well as at Fisheries and Oceans headquarters.

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# Report of the Auditor General of Canada to the House of Commons – 1999

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**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 9**  
**Management of Science and Technology Personnel:**  
**Follow-up**

**April 1999**



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**Chapter 9**  
Management of Science and Technology Personnel:  
Follow-up



**April 1999**

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## Chapter 9

### Management of Science and Technology Personnel

Follow-up

*The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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# Management of Science and Technology Personnel

## Follow-up

### Main Points

**9.1** We are satisfied with the efforts made by the science and technology community to follow up on our audit recommendations of 1994 and the concerns we raised in our 1996 follow-up report. In our view, the community is showing leadership and perseverance in dealing with the human resource management issues we raised.

**9.2** As a result of all the work done since 1994, the science and technology community is now in a position to act. But the community is faced with considerable challenges. It must give priority to resolving the oncoming changes in its demographic profile that could weaken or compromise the government's science and technology capacity. It must tackle the dual challenges of attracting and recruiting promising young scientists and technologists while retaining high-calibre employees to mentor and develop the new recruits. The community is thus seeking new measures, tools and resources for external recruitment, as it estimates that over the next five years it may have to recruit between 2,500 and 3,300 employees to build a renewed and rejuvenated science and technology work force.

### Background and other observations

**9.3** At 31 March 1998, the federal government had close to 20,000 scientific and technical employees working in science-based departments, agencies, Crown corporations and research establishments in the fields of natural sciences and engineering (hereinafter referred to as the "science and technology community").

**9.4** The science and technology community makes an important contribution to the government's 1996 science and technology strategy, which focusses on sustainable job creation and economic growth, improved quality of life and the advancement of knowledge.

**9.5** Expenditure and work force reduction in the public service has changed the profile of the science and technology community and worsened the long-identified problems of rejuvenation and recruitment. The change in the age profile is a major challenge to the future of the community. Not only have most senior and experienced scientists and technologists left the government since 1994, but the youngest and most promising as well.

**9.6** Following our 1994 audit of federal science and technology activities, the community mobilized to develop a management framework and a results-oriented plan for human resources management in science and technology. It addressed such issues as the need for a more strategic approach to the management of scientific personnel; for more systematic renewal of scientific personnel; and for more effort to maintain the skills and knowledge base in research establishments. Working groups were created to study important human resource issues. Among their recommendations to the Science and Technology Senior Steering Committee on Human Resources was that new mechanisms be adopted and human resource strategies developed to improve the management of science and technology personnel in science-based departments and agencies.

**9.7** In 1994, we pointed out the need to develop a stronger and more effective management capability. Since then, the community has developed a competency profile for science and technology managers. During our consultations, we noted that most science-based departments used their own competency profiles instead of the one developed by the working group. Moreover, their profiles were being used solely to identify training needs and generally not for purposes of manager recruitment, promotion or performance assessment. Present practices suggest a lack of consensus in the community on the management competency profile defined by the working group. This could eventually prevent the integration of recruitment and training activities as well as the reward, promotion and compensation systems envisioned in the *Science and Technology Blueprint for Human Resources Management*.

**9.8** The Treasury Board Secretariat, science-based departments and agencies and the science and technology community have indicated that they are committed to following through on the strategies and plans developed to date.

## Introduction

**9.9** The federal government spends approximately \$6 billion per year, or a quarter of the total investment in Canadian research and development, making it a leading stakeholder in the country's general science and technology activities. In 1996 the government released its science and technology strategy, which focussed on three objectives: job creation and economic growth; improved quality of life for Canadians; and the advancement of knowledge.

**9.10** At 31 March 1998, an estimated 20,000 federal employees were involved in scientific and technological activities, in the fields of natural sciences and engineering (hereinafter referred to as the "science and technology community" or "community"). These employees worked in the six major science-based departments — Agriculture and Agri-Food Canada, National Defence (civilian personnel), Environment Canada, Fisheries and Oceans, Natural Resources Canada and Health Canada, for whom Treasury Board is the Employer — and in science-based agencies and Crown corporations such as the National Research Council and the Communications Research Centre.

**9.11** There have been many attempts over the past 30 years to resolve some of the major issues in the management of scientific personnel, particularly management capability and the maintenance of a "world-class" scientific work force. In 1994, following our audit of federal science and technology activities, the science and technology community mobilized and developed a better-structured approach to human resource management. In March 1996, the Treasury Board Secretariat released the *Framework for the Human Resources Management of the Federal Science and*

*Technology Community*. Among other things, this document outlines objectives and the management structure put in place to address human resource issues, notably those raised in our 1994 Report (Chapter 11).

**9.12** In our 1996 follow-up (Chapter 15) we noted that the Treasury Board Secretariat, in co-operation with science-based departments and agencies and the science and technology community, had undertaken a series of initiatives designed to address our 1994 audit recommendations. We pointed out, however, that the litmus test of the Framework would be the degree to which the government accepted it and the science and technology community implemented it.

**9.13** It is important to note that this series of initiatives was undertaken in a particularly difficult environment, when wages and salaries were frozen at their 1991 levels and the government was starting work on its "Getting Government Right" initiative by launching a number of reviews. One of these was Program Review — the scrutiny and review of "program spending" and the re-examination of the federal government's role and responsibilities in delivering programs. Program Review led to substantial expenditure and work force reductions in the public service. All of this had a significant impact on the activities and capacities of science-based departments and on the morale and job satisfaction of their employees.

### Focus of the follow-up

**9.14** Given the importance of the *Framework for the Human Resources Management of the Federal Science and Technology Community* and the fact that a little more than two years had passed since our last follow-up, we believed that the time was right to review the progress made in implementing the Framework.

The science and technology community had undertaken a series of initiatives designed to address our 1994 audit recommendations.

This series of initiatives was undertaken in a particularly difficult environment.

This chapter provides our assessment of advances since 1994 in:

- addressing the problems of work force renewal, rejuvenation and recruitment of scientific personnel; and
- improving management capability by developing competency profiles for managers of research establishments.

**9.15** We interviewed some stakeholders in the science and technology community and consulted various reports published by the community and others. We used the Treasury Board Secretariat's information systems to quantify certain results. Details concerning the objective, scope and approach of our work are included in **About the Follow-Up** at the end of this chapter.

## Observations

### Many Activities Address Problems Raised in 1994

**The community is developing a management blueprint and accountability agreements**

**9.16** In 1994 we were concerned by the government's lack of commitment to implementing the recommendations of studies done over the preceding 30 years, and by the fact that there was no one responsible for taking corrective measures. In 1996 we recognized that the support of the Treasury Board Secretariat, science-based departments and agencies and the science and technology community had contributed much to advance the implementation of the *Framework for the Human Resources Management of the Federal Science and Technology Community*. We also pointed out, however, that it would require a major effort by science-based departments and agencies to carry out the activities identified in the Framework. In that context, we raised the importance of results-oriented, time-phased plans that

would include main steps, schedules, milestones and resource requirements.

**9.17** On the community's behalf, in the summer of 1997 the Treasury Board Secretariat provided us with a management document, *Science and Technology Blueprint for Human Resources Management*.

**9.18** The Blueprint was developed in co-operation with all the stakeholders – namely the Secretariat, science-based departments and agencies, and the unions. It sets out action plans and expected results, implementation activities and pilot projects. It identifies responsibilities, particularly those of the working groups looking at the human resource management issues raised in our 1994 audit. The Blueprint suggests priority actions and a timetable for implementation as well as the necessary resources. Finally, it presents success criteria, performance measures for the expected results, and mechanisms to ensure accountability for results.

**9.19** In our opinion, the Blueprint responds in essence to our 1994 recommendations on developing a strategy for the management of scientific personnel. It offers a particular benefit as a guide to implement human resource initiatives and to integrate and co-ordinate horizontal science and technology issues. Moreover, the Blueprint contains enough information to enable science-based departments and agencies to carry out the activities needed for improved management of their scientific personnel. The accountability structure is noteworthy and the community has established what we believe are realistic expectations for meeting the short-term objectives.

**9.20** The Blueprint will continue to offer these benefits if its designers and users maintain the consultative approach used so far to resolve current and emerging issues in the management of scientific personnel. Moreover, we believe that the Blueprint, regularly updated, can keep the science and technology

The community's management Blueprint responds in essence to our 1994 recommendations on developing a strategy for the management of scientific personnel.

community informed about progress made and results achieved.

**9.21** In the course of our follow-up, we noted that the working groups have reported on the status of their work to the Science and Technology Senior Steering Committee on Human Resources. It, in turn, has presented important human resource issues to the Science and Technology Community Sub-Committee of the Committee of Senior Officials (see Appendix). The community Internet site (<http://www.tbs-sct.gc.ca/tb/hr/scitech>) is managed by the Treasury Board Secretariat and posts, among other things, reports on the results of the working groups' efforts.

**9.22** In our opinion, the accountability structure could be still more transparent by identifying, for example, how progress and results are to be reported to Parliament and the community. In 1998, the science and technology community presented its findings in the *First Progress Report on La Relève*. (Introduced in 1997, La Relève is a government initiative aimed primarily at modernizing the public service of Canada and making full use of its talents.) At the end of our follow-up work, the community was discussing the nature and the content of a progress report for 1999 and future years.

### **The community discusses issues of common interest**

**9.23** In 1994, we recommended that the government create a forum dedicated to scientific personnel management issues. At the end of our follow-up work in 1996, we were still concerned about the lack of a forum for sharing "best practices" in human resource management and discussing issues of common interest.

**9.24** In December 1998, the community held a forum for science managers on the theme "The Science and Technology Workforce — Managing Your Investment". The Treasury Board Secretariat, science-based departments

and agencies, unions and the community discussed best practices and innovative solutions to current and future human resource issues, such as the management of tomorrow's science and technology personnel.

**9.25** This forum was an opportunity to discuss issues of common interest and propose solutions to identified problems. To obtain the commitment and continued support of the community and other stakeholders, however, attention will have to focus on consultation and communication as well as on achieving expected results. When scientific managers, researchers and other stakeholders collaborate to identify their own human resource problems, they will be more inclined to adopt the proposed solutions and to maintain their commitment. The science and technology community continues to make communication a priority for 1999.

## **The Working Groups Are Recommending Action Plans**

**9.26** In 1996, we underscored the amount of time and effort invested by the science and technology community in addressing long-standing problems raised in our 1994 audit. These included the need for a more strategic approach to the management of scientific personnel; for a more systematic process of renewal; and for more effort to maintain the skills and knowledge base in research establishments. We were concerned that effort and momentum would dissipate because, among other things, major initiatives would have to be undertaken at the same time as Program Review and expenditure and work force reductions.

**9.27** In this follow-up, we noted that several mechanisms had been proposed to ensure continuity of these initiatives. For example, the working group looking at work force mobility issues recommended to the Senior Steering Committee that the science and technology community be managed centrally, on the basis of its own

All working groups submitted reports that identified effective means, essential conditions and action plans for improving the management of scientific personnel.

particular characteristics and needs. The working group added that this centralized management system would include an infrastructure at the Treasury Board Secretariat to provide general support to the science-based departments and the community.

**9.28** We noted that despite budget cuts and work force reduction, the working groups maintained continuity of effort notwithstanding a few delays. All working groups submitted reports that identified effective means, essential conditions and action plans for improving the management of scientific personnel. Their recommendations touched on a specific infrastructure for the science and technology community, the adoption of new mechanisms, the need to develop human resource strategies and the elimination of systemic constraints.

**9.29** For example, the working group looking at recruitment and renewal issues recommended to the Senior Steering Committee that science-based departments and agencies develop and implement promotional programs designed to raise awareness among prospective job candidates about federal activities and successes in science and technology. The working group added that those programs should target students and encourage them to consider science as a field of study and science-based departments and agencies as potential employers. Exhibit 9.1 presents some of the recommendations made by the working groups on work force and mobility and recruitment and rejuvenation.

**9.30** The working group looking at job classification and salary compression is on hold, pending decisions on the Universal

Exhibit 9.1

Some Working Group Recommendations to the Science and Technology Senior Steering Committee on Human Resources

| Working Group<br>on Work Force and Mobility   | Working Group<br>on Recruitment and Rejuvenation   |
|---|--|
| <ul style="list-style-type: none"> <li>Conduct an analysis and comprehensive projection of the science and technology work force across the federal government in support of management of the community and the initiatives taken by each department.</li> <li>Establish the mechanisms, processes and databases needed to implement the sharing of best practices and information among science-based departments across the federal government.</li> <li>Increase mobility within the federal government by completely eliminating the obstacles that currently stand in the way of staff movement.</li> <li>Maximize the use of existing official mobility and rejuvenation programs by integrating into program design and delivery a specific component for science and technology.</li> <li>To complement existing programs, create an assignment-based exchange program specifically for the science and technology community with the objective of offering short- and medium-term interdepartmental assignments. The program should also focus on the exchange of rotating assignments between the regions and headquarters.</li> </ul> | <ul style="list-style-type: none"> <li>All science- and technology-based departments and agencies should develop a long-term recruitment and rejuvenation strategy.</li> <li>Federal departments and agencies should encourage the hiring of undergraduate and graduate students as well as research fellows by science and technology organizations.</li> <li>The science- and technology-based departments and agencies should negotiate co-operation agreements with teaching establishments, industry and other government bodies in Canada and abroad.</li> <li>All science- and technology-based departments and agencies should adopt recruitment and rejuvenation plans for science and technology managers.</li> <li>More authority should be delegated to all science- and technology-based departments and agencies, along with greater leeway in the areas of staffing and recruitment.</li> </ul> |

Source: Excerpts from reports of these two working groups to the Senior Steering Committee, 1997.

Classification Standard that the government intends to implement in 1999. The community will have to reconcile the job classification and evaluation system with a promotion system for research scientists that is based on individual competencies and contributions.

**9.31** In our opinion, the necessary elements of the planning phase are in place; the science and technology community is now in a position to act.

## The Challenges of Recruitment and Retention Are Considerable

### It is time to act

**9.32** In 1994 we emphasized that renewal of the scientific work force is essential if a scientific organization is to remain creative and productive in the long term.

**9.33** In 1996, we found that work force reduction had meant the loss of a significant number of experienced scientists. We noted as well that young scientists who were considered promising by departments but who were term employees had been released to protect the positions of indeterminate employees. As a result, we concluded that the challenge of renewing and recruiting scientific personnel was even greater than the community had faced in 1994.

**9.34** Since then, we have performed other demographic analyses that — along with those by the community — show that the six major science-based departments for whom Treasury Board is the Employer saw a net reduction of almost 25 percent in their work force between 1994 and 1998, a decrease of almost 5,000 employees in all forms of employment. We note that around 1,300 of those employees were transferred to the Canadian Food Inspection Agency. (As a separate employer, the Agency and not the Treasury Board is the Employer of its human resources.)

**9.35** Our analysis showed a sharp decrease in some occupational groups since 1994 (see Exhibit 9.2). Additional analysis also showed that indeterminate positions at entry levels were hit hardest.

**9.36** The ratio of indeterminate staff to term employees dropped. In 1994, the number of term employees in the six science-based departments represented 9.5 percent of the population; in 1998, this had increased to 16.5 percent.

**9.37** The change in the age profile of the indeterminate work force is a major challenge for the future of the science and technology community and its renewal. Our analysis showed that it is the young and the oldest who have left the community since 1994. From 1994 to 1998 there was a greater concentration of scientific personnel in the middle age groups. The number of indeterminate employees between the ages of 19 and 40 decreased by 10 percent, while the population over 41 increased by 10 percent. In 1998, the average age of term employees was 36; our analysis showed there had been no significant fluctuation in age among term employees between 1994 and 1998.

**9.38** Some of our audit work and analyses and the analysis conducted recently by the science-based departments show similar demographic losses that could weaken their operational capacity. The problems of rejuvenation, recruitment and retention have worsened since 1994; resolving them must be made a priority. Without vigorous action, the government's science and technology capacity could be seriously compromised. Based on its own analysis, the community estimates that the six science-based departments may have to recruit between 2,500 and 3,300 indeterminate employees over the next five years to replace those who will retire or leave for other reasons. A working group has looked at the needs of the science-based departments in the short, medium and long terms.

The necessary elements of the planning phase are in place; the community is now in a position to act.

The problems of rejuvenation, recruitment and retention have worsened since 1994; resolving them must be made a priority.

Without vigorous action, the government's science and technology capacity could be seriously compromised.

### The community needs to focus on recruitment activities

**9.39** The recruitment strategies of science-based departments deal with common issues, particularly the need to change the perception of the federal public service as an employer and to further clarify the government's role in the field of science. To promote and demystify science, the science-based departments and agencies plan to recruit

more undergraduates and graduates than they did in the past. The strategies also suggest inviting retired scientists to promote science at colleges and universities and to become mentors for new recruits. At the last Assistant Deputy Ministers Forum in June 1998, it was proposed that a co-op program for students be offered and university scholarships be directed toward specific priority sectors.

#### Exhibit 9.2

#### Distribution of Science and Technology Occupational Groups in Six Science-Based Departments<sup>1</sup>

All forms of employment

| Occupational Groups                     | April 1994    | March 1998    | Net Decrease or Increase <sup>2</sup> | CFIA <sup>3</sup> |
|---|---------------|---------------|---------------------------------------|-------------------|
| <b>Technical</b>                        |               |               |                                       |                   |
| Drafting and Illustration (DD)          | 682           | 373           | (309)                                 | 1                 |
| Engineering and Scientific Support (EG) | 6,008         | 4,664         | (1,344)                               | 280               |
| Electronics (EL)                        | 677           | 722           | 45                                    |                   |
| General Technical (GT)                  | 2,056         | 1,319         | (737)                                 |                   |
| <b>Scientific</b>                       |               |               |                                       |                   |
| Agriculture (AG)                        | 283           | 35            | (248)                                 | 187               |
| Biological Sciences (BI)                | 1,308         | 1,172         | (136)                                 | 95                |
| Chemistry (CH)                          | 460           | 362           | (98)                                  | 62                |
| Defence Scientific Service (DS)         | 569           | 439           | (130)                                 |                   |
| Engineering and Land Survey (EN)        | 1,224         | 1,036         | (188)                                 | 2                 |
| Forestry (FO)                           | 167           | 87            | (80)                                  |                   |
| Medicine (MD)                           | 159           | 129           | (30)                                  |                   |
| Meteorology (MT)                        | 621           | 486           | (135)                                 |                   |
| Nursing (NU)                            | 1,025         | 780           | (245)                                 |                   |
| Physical Sciences (PC)                  | 1,232         | 780           | (452)                                 |                   |
| Pharmacy (PH)                           | 38            | 23            | (15)                                  |                   |
| Scientific Research:                    |               |               |                                       | 50                |
| Scientific Research Manager (SE-REM)    | 196           | 165           | (31)                                  |                   |
| Scientific Research (SE-RES)            | 1,945         | 1,527         | (418)                                 |                   |
| Scientific Regulations and Patents (SG) | 438           | 293           | (145)                                 | 216               |
| Veterinary Medicine (VM)                | 587           | 33            | (554)                                 | 423               |
| <b>Total</b>                            | <b>19,675</b> | <b>14,425</b> | <b>(5,250)</b>                        | <b>1,316</b>      |

<sup>1</sup> Agriculture and Agri-Food Canada, National Defence (civilian personnel), Environment Canada, Fisheries and Oceans, Natural Resources Canada and Health Canada.

<sup>2</sup> Net decrease or increase accounts for recruitment and departures during the given period.

<sup>3</sup> Positions transferred to the Canadian Food Inspection Agency in 1998.

**Source:** Treasury Board Secretariat, 1994 and 1998 Incumbent files (*not audited*).

**9.40** The recruitment strategies envisioned by the science and technology community are in line with the recommendations in the recent study by the Public Service Commission, *Facing the Challenge — Recruiting the Next Generation of University Graduates for the Public Service*. The students who responded to a survey by the Commission showed little awareness of employment opportunities in the federal public service related to their field of study.

#### **The community wants more flexible external recruitment measures**

**9.41** At the December 1998 forum, some science managers contended that the authority currently delegated to them allows them to hire only casual employees except in cases where there are special agreements with the Public Service Commission.

**9.42** As one of the pilot projects proposed by science-based departments and the community, the Public Service Commission in 1997 adopted more flexible recruitment measures for the Minister of Agriculture and Agri-Food, so the Department could meet its priorities for co-operation with the private sector under the cost-sharing program for research and development spending. The Commission used an exclusion order, which exempts some appointments from the *Public Service Employment Act* in part or in whole. (Exclusion orders are recommended by the Public Service Commission and are approved by the Governor in Council.) Progress reports show that recruitment for that project took an average of only three days. In addition, the same exclusion order enabled two research establishments to recruit almost 200 term employees for scientific positions between July 1997 and December 1998. Eventually some of these term employees were offered indeterminate employment through the regular staffing process.

**9.43** The science-based departments and some agencies are exploring other special agreements with the Public Service Commission to make external recruitment more flexible. In our opinion, new external recruitment measures are needed to build a renewed and rejuvenated work force and thereby resolve the problems we have reported since 1994. The science and technology community needs to act now and meet the challenge of recruitment. However, it should not underestimate the effort it will take to employ efficient and effective recruitment strategies while achieving employment equity objectives. Science-based departments and agencies will have to obtain the necessary tools and resources from the government, including adequate forms of rewards, recognition and incentives.

#### **High-calibre staff need to be retained**

**9.44** According to studies, testimony and documents such as the Report of the Senate Standing Committee on National Finance (February 1999), the government's future capacity in science and technology depends on its ability to recruit and retain high-calibre scientists and technologists. Salary freezes, expenditure and work force reductions and their effects (increased workloads, lack of job security and reduced opportunities for promotion) and an expanding North American economy are leading some scientists and technologists to leave the public service or to question their commitment and loyalty to their employer.

**9.45** In this environment, the challenge for the government and the science-based departments and agencies is to offer their employees not only adequate compensation but also a stimulating work environment with varied, enriching assignments that enable them to contribute to society.

**9.46** The community must also rise to the dual challenge of recruiting promising

young scientists and technologists and retaining highly qualified employees. Central agencies and science-based departments need to take immediate action. Without high-calibre employees in place to nurture and develop young scientists and technologists, there is a risk that the community will not achieve the results it expects from recruitment.

### Management Capability: Some Progress

**9.47** In our 1994 Report, we noted the need to develop a stronger and more effective management capability in research and development. We expected that this management capability would be developed strategically by identifying competency profiles that describe the skills and knowledge expected at various levels of science and technology management, from project leader to research establishment director, for example. We pointed out that these competency profiles could also be used to select supervisors, managers and members of the executive group, and as a reference point for assessing their performance.

**9.48** In its *Science and Technology Blueprint for Human Resources Management*, the Treasury Board Secretariat suggested developing a competency profile. It viewed this as an indispensable step in the integration of recruitment and training activities and the

reward, promotion and compensation systems. In 1998, a working group looking into management and scientific development and training prepared a competency profile for science and technology managers.

**9.49** In addition, as a pilot project, Environment Canada's National Water Research Institute recently developed a competency profile for its research and development (R&D) managers. Exhibit 9.3 depicts the Institute's approach.

**9.50** At the same time, most science-based departments developed their own competency profiles for general and R&D management positions that reflect their own organizations. During our consultations, we noted that most science-based departments used their own competency profiles instead of the one developed by the working group.

**9.51** At the end of our follow-up work, those profiles were being used solely to identify courses needed for training and development of science managers in science-based departments. We also noted that the Canadian Centre for Management Development had dropped the common training courses formerly offered to science and technology managers.

**9.52** In December 1998, the Science and Technology Senior Steering Committee on Human Resources approved the recommendations of the working group on management and

#### Exhibit 9.3

##### Developing a Competency Profile for Science and Technology Managers – National Water Research Institute's Approach

- Establishment of a discussion panel made up of senior managers, internal and external human resource experts and approximately 15 research and development managers who worked on various projects and whose performance was rated superior.
- Discussion panel meetings that made it possible to put together a framework used to design, develop and apply the competency profile.
- Discussion panel meetings that made it possible to identify an array of success criteria experienced and conveyed by the research and development managers.
- Confidential individual assessment of all the Institute's managers against those success criteria.
- Compilation of individual results.
- Establishment and distribution of a dictionary containing a profile of nine competencies, including definitions, performance standards and suggested training and development methods.

**Source :** Adapted from information provided by the Institute, 1997–1998.

scientific development that the community develop, in consultation with the Canadian Centre for Management Development, a training module for science and technology managers and identify in this module the training elements that can be offered by science-based departments.

**9.53** If the community is to increase the mobility of its science managers in the federal government, as it recommended to the Senior Steering Committee, in our view it needs to ensure that some of the management skills required are common, transferable and known to its members. For example, when the science and technology community defines the competencies of the manager of the future, it needs to distinguish between general and R&D management; and it needs to communicate those competencies to employees with or without science and technology backgrounds who aspire to management positions.

**9.54** According to the Blueprint, the science-based departments and agencies are responsible for co-ordinating the training of their science and technology managers. However, it does not specify the performance expectations in terms of science management capability; roles and responsibilities for monitoring performance; or corrective measures when performance falls short of expectations. As a first step, the competency profile proposed for the science and technology manager marks a shift toward the integrated approach suggested in the Blueprint. However, if the science and technology community is to act on its own recommendations, it will have to integrate and co-ordinate its activities related to developing management capability in research and development.

**9.55** In our opinion, current practices suggest a lack of consensus within the community on the management competency profile developed by the working group. This could eventually prevent the integration of recruitment and training activities and the reward, promotion and compensation systems envisioned in the Blueprint.

## Conclusion

**9.56** Overall, we think that the Treasury Board Secretariat, science-based departments and agencies and the science and technology community have shown leadership in the management of their human resources. Based on the strength of the community's achievements and progress despite the difficult environment, some senior officials have suggested that the science and technology community could serve as a model across the federal government.

**9.57** We believe that the work accomplished to date completes the planning phase. At the end of their work, the working groups set up to examine the key issues recommended to the Science and Technology Senior Steering Committee on Human Resources many ways to take action. However, there are still major challenges to be met. In some cases, changes in demographic profiles have worsened since 1994 and have accentuated the problems of rejuvenation and renewal. The science and technology community now needs to implement efficient and effective strategies to recruit and retain high-calibre staff and obtain from the government the tools and resources it needs to do so.

**If the community is to increase the mobility of its managers, it needs to ensure that some of the management skills required are common, transferable and known to its members.**

**Some senior officials have suggested that the community could serve as a model across the federal government.**



## About the Follow-up

The *Framework for the Human Resources Management of the Federal Science and Technology Community*, released in 1996 by the Treasury Board Secretariat, was designed to serve as a collection of policies and tools that science managers could use to align their organizations and their scientific and technological personnel with the science direction and activities of their departments.

### Objective and Scope

Our follow-up objective was to assess the extent of progress made by the science and technology community on two major issues we had raised in our 1994 Report (Chapter 11) and that were included in the Framework: renewal, rejuvenation and recruitment of scientific personnel, and improvement in management capability.

We also assessed the progress made on issues raised in our 1996 Report Chapter 15, Federal Science and Technology Activities: Follow-up. Those issues included the need for a results-oriented, time-phased action plan and for effective mechanisms to share “best practices” and discuss issues of common interest.

### Approach

We worked from a global perspective and we dealt mostly with the Science and Technology Unit at the Treasury Board Secretariat. However, we consulted stakeholders in science-based departments and agencies. We reviewed various reports issued by central agencies, science-based departments and the community. We did not audit the management of scientific personnel in science-based departments and agencies.

To quantify certain results, we used the Treasury Board Secretariat’s information systems for the years 1994–1995 to 1997–1998. More specifically, we analyzed work force changes in scientific and technological professional groups in the six main science-based departments for whom Treasury Board is the Employer. This approach was used so we could compare the results of our analyses with those carried out by the community and published in its report to the Science and Technology Senior Steering Committee on Human Resources that dealt with recruitment needs for 1998–2002.

### Audit Team

Assistant Auditor General: Maria Barrados  
Responsible Auditor: Denise Coudry-Batalla

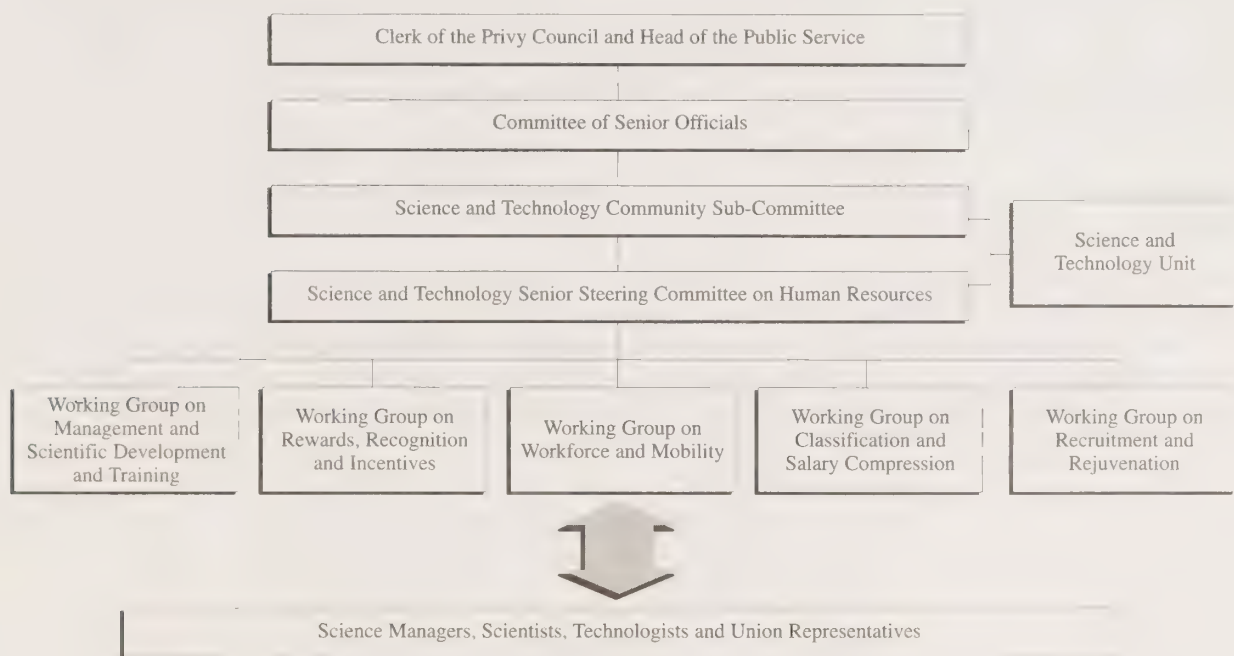
For information, please contact Maria Barrados.

## Appendix

# Management Structure Adopted by the Science and Technology Community

## A Response to Address Concerns Raised by the Auditor General in 1994

A management structure has been put into place to implement the *Framework for the Human Resources Management of the Federal Science and Technology Community*. The structure was modified somewhat since 1996 when the La Relève initiative was launched. La Relève is an initiative aimed at modernizing the public service through the creation of a “workplace where people are valued, recognized, given opportunities for self-development, and treated in accordance with the core values of the public service”.



**Clerk of the Privy Council and Head of the Public Service.** The Clerk of the Privy Council has been formally recognized as the Head of the Public Service since 1993. By statute, the Head of the Public Service must report annually to the Prime Minister on the state of the public service. The Clerk chairs the Board of Governors of the Canadian Centre for Management Development and the Committee of Senior Officials.

**Committee of Senior Officials (COSO).** The Committee, composed of deputy ministers of departments and deputy heads of agencies, provides advice and counsel to the Clerk of the Privy Council on a number of issues — including government-wide human resource issues. The Secretary of the Treasury Board and the President of the Public Service Commission are members of the committee. The Committee of Senior Officials has had significant involvement in initiatives aimed at renewing or modernizing the public service. In the context of La Relève, sub-committees of COSO were created to champion, support or integrate departmental initiatives. A sub-committee composed of deputy ministers and chaired by a deputy minister from a science-based department was created to support initiatives by the science and technology community to address human resource issues and challenges faced by science-based departments and agencies on the eve of the 21st century.

**Science and Technology Senior Steering Committee on Human Resources.** The Senior Steering Committee is composed of assistant deputy ministers from science-based departments; representatives from organizations such as the National Research Council, the Treasury Board Secretariat and the Public Service Commission; and the Professional Institute of the Public Service of Canada, the bargaining agent for scientists. The Steering Committee is co-chaired by the Treasury Board Secretariat and an assistant deputy minister from a science-based department. The committee leads the implementation of the Framework and acts as “champion” for the various projects. The Science and Technology Unit at the Treasury Board Secretariat provides support to the committee.

**Treasury Board Secretariat.** In addition to participating in the activities of the various projects teams, the Treasury Board Secretariat initially designated the senior officials responsible for the various projects. The Secretariat also designated the policy centres responsible for working and providing specialist support to project teams examining human resource issues and developing action plans.

**Working Groups.** Initially, five working groups were established to examine human resource issues: management and scientific development and training; rewards, recognition and incentives; workforce and mobility; classification and salary compression; and recruitment and rejuvenation. The working groups comprise senior scientists, managers, engineers and technologists, as well as representatives of the major science-based departments, along with representatives of the Professional Institute of the Public Service of Canada, the Treasury Board Secretariat, the Public Service Commission and human resource specialists providing support. Generally, the working groups are led by departmental officials and are self-managed but with predetermined project plans and timeframes. The working groups are responsible for recommending solutions and for managing change and implementing subsequent activities such as pilot projects.

**Science and Technology Unit.** Housed in Treasury Board Secretariat, the Science and Technology Unit is composed of two Treasury Board Secretariat employees and one departmental scientist, who represents the Professional Institute of the Public Service of Canada. The Unit supports project teams to reduce duplication and overlap while maintaining a process for ensuring that projects keep rolling. The Unit is also responsible for informing senior officials about the status of projects and establishing a communications strategy to keep departments and the science and technology community informed about the implementation of the Framework.

**Source:** Adapted from information provided by the Treasury Board Secretariat.

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**Report of the  
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**Chapter 10**  
Indian and Northern Affairs Canada –  
Funding Arrangements for First Nations:  
Follow-up

**April 1999**



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**April 1999**

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# Chapter 10

**Indian and Northern Affairs  
Canada**  
Funding Arrangements for First  
Nations: Follow-up

*The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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## Indian and Northern Affairs Canada

### Funding Arrangements for First Nations: Follow-up

#### Main Points

**10.1** Indian and Northern Affairs Canada still needs to better match the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for billions of dollars they receive annually through the Department.

**10.2** The Department is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements, are appropriately resolved. Redress (resolution mechanisms) needs to be improved as an element of accountability.

**10.3** The Department has stated that it has slowed the rate at which the Financial Transfer Arrangement (FTA), a new type of funding arrangement, is being implemented in order to address issues concerning the willingness and ability of First Nations to adopt it. The Department still has a long way to go if it wishes to achieve its objective of implementing the FTA as the appropriate funding mechanism to replace other types of funding arrangements. It will need to find ways to expedite the conversion process while improving co-ordination of funding with other federal departments.

#### Background and other observations

**10.4** Funding arrangements are a key element in the relationship between First Nations and the federal government. Parliament appropriates about \$4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and other Aboriginal groups.

**10.5** In our November 1996 Report, we made recommendations relating to funding arrangements, including the FTA, and to the co-ordination of funding across federal departments. We also made recommendations on accountability issues and on the suitability of funding arrangements for the needs of the Department and First Nations.

**10.6** This follow-up focusses on the Department's implementation of our 1996 recommendations.

**The Department believes that with respect to redress, the follow-up extends beyond the issues raised in 1996; however, it has acknowledged that continuing effort is needed to improve certain aspects of funding arrangements, including accountability.**



## Introduction

### The significance of funding arrangements

**10.7** Parliament appropriates about \$4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and a number of other Aboriginal groups.

**10.8** Funding arrangements for First Nations are mainly in the form of contribution agreements. These agreements set out specified terms and conditions for expenditures, including community service standards and accountability and performance expectations.

**10.9** The nature of funding arrangements between First Nations and the Government of Canada reflects the evolving relationship between the federal government and Aboriginal peoples by providing mechanisms to address the willingness and the capacity of First Nations to manage their affairs. These arrangements set out the means by which First Nations and the federal government ensure that programs are delivered, as agreed between parties, to the benefit of those mainly living on reserves. As of 1996, six types of funding arrangements were being used in the Department, each reflecting different responsibilities and expectations between parties.

### The 1996 audit issues

**10.10** In 1996 we carried out an audit of funding arrangements and made recommendations relating to:

- a newly developing type of funding arrangement — the Financial Transfer Arrangement (FTA);

- the co-ordination of funding across federal departments;
- the suitability of funding arrangements for meeting departmental and recipient needs, including the willingness and capacity of recipients to enter into these agreements; and
- accountability issues and other matters.

### Departmental commitment to improvements

**10.11** In December 1996, shortly after publication of our audit report, the Standing Committee on Public Accounts met to deliberate the issues. At the hearing, the Department indicated that it had taken measures during the audit and would continue to take further steps to address the audit recommendations.

**10.12** In response to the 1996 Report of the Royal Commission on Aboriginal Peoples, the Department indicated its commitment in Gathering Strength — Canada's Aboriginal Action Plan, to develop stable financial arrangements that promote accountability and foster self-reliance of Aboriginal communities.

**10.13** In its 1998–99 Report on Plans and Priorities, the Department states that developing a new fiscal relationship is a priority and that the ultimate outcome of efforts to achieve this and strengthen accountability will be the establishment of government-to-government fiscal transfers that provide more stable funding, integrate self-generated revenues and taxation with strong information systems, and enhance local accountability.

### Focus of the follow-up

**10.14** The overall objective of the follow-up was to determine progress in implementing the recommendations made in our 1996 Report Chapter 33, Funding Arrangements for First Nations. We took into account the Department's commitments and the actions taken in

**Canada's Aboriginal Action Plan emphasizes the need to promote accountability and foster self-reliance through funding arrangements.**

response to our 1996 audit, including the progress the Department reported up to December 1998. Further details on the follow-up are found at the end of the chapter in **About the Follow-up**.

## Observations

### Initiatives Undertaken Since 1996

**10.15** Several initiatives are being implemented. Indian and Northern Affairs Canada embarked on a new Financial Transfer Arrangement (FTA) as the replacement, by March 1998, of most other funding arrangements. In its published response to our 1996 audit, the Department pointed to the development of the new FTA as “an important step in the right direction” in addressing the audit issues.

**10.16** The FTA is intended to:

- strengthen accountability;
- enable First Nations to better meet community needs;
- establish a stable funding base; and
- achieve better value for money.

**10.17** Steps by the Department toward improving funding arrangements include:

- the development of a First Nations accountability and management self-assessment workbook and a requirement that every First Nation self-assess and report its accountability and management regimes to the Department as a prerequisite to receiving departmental funding;
- the use of development plans to improve accountability and management where indicated in the applicable First Nations self-assessments;
- support of external initiatives to enhance financial capacity and governance in First Nations communities;

- the development of national allegations (redress) guidelines; and

- the development of a generic interdepartmental funding agreement to better co-ordinate First Nations funding across federal departments.

**10.18** Since all of the initiatives are relatively new, tests of their effectiveness during the follow-up were limited. The observations that follow do not necessarily apply equally to each of the four departmental regions that we visited.

### The New Financial Transfer Arrangement

**10.19** In 1996, the Department set a target of March 1998 for finalizing the conversion of all funding arrangements to Financial Transfer Arrangements. An FTA is typically a five-year funding contract that is more flexible than the other arrangements presently in use. However, along with flexibility and greater certainty of funding levels over a longer term, First Nations take on greater risks. Surplus funds in any one year may be carried over to the next year but shortfalls must be covered by First Nations.

**10.20** Progress in adopting the FTA is considerably behind the Department's target. According to the Department, 117 First Nations and tribal councils, less than 20 percent, were using FTAs as of January 1999. At the rate of progress since 1996, it will take at least another 10 years to completely replace existing funding arrangements. For example, the Department has identified 39 recipients whose current or expiring Alternative Funding Arrangements are being considered for extension beyond the normal expiry date because of issues to be addressed relating to capacity or willingness to adopt the FTA.

**10.21** The Department has stated that it has slowed the rate at which the FTA is being implemented to address issues

concerning the willingness and ability of First Nations to adopt it.

**10.22** Information obtained during the follow-up suggests four major challenges to progress in implementing the FTA. These are consistent with the audit issues reported in 1996.

- There is a perception among many First Nations that they will receive less overall funding under the FTA than through existing funding arrangements.
- Some First Nations believe that they did not have sufficient input to the design of the FTA.
- Some First Nations are unable or unwilling to assume the additional responsibilities (and control) that may accompany the more flexible FTA.
- There is a lack of training opportunities to enable First Nations to deal with the requirements of the FTA.

**10.23** We further noted that the Department does not have a plan and strategy to facilitate progress in adopting FTAs, where appropriate. We could find no plans in the four departmental regions we visited that would address this, or that would apply to any other new funding arrangement that may be considered.

**10.24** Such a plan would include:

- the considerations and approach to be used in achieving the objective;
- the identification of departmental and First Nations risks;
- the development of a realistic conversion timetable that all parties could agree to; and
- the identification of alternative courses of action (including the possible replacement of the FTA if circumstances so dictate) to address challenges along the way.

**10.25** Finally, we believe that the FTA, or any other funding arrangement that may evolve in the future, will not achieve the necessary objectives if there is no will and effort by First Nations and the Department to work together effectively toward the right arrangement for the circumstances.

## Co-ordination of Federal Funding to First Nations

**10.26** The Department is attempting to better co-ordinate funding to First Nations with other federal departments. Most, if not all, First Nations appear to be eligible for funding from several federal departments. Appropriate co-ordination can benefit all the parties in several ways, including increased efficiency of administration, appropriate accountability and reduced duplication of reporting requirements.

**10.27** With a view to improving co-ordination, the Department developed another funding arrangement, the Canada/First Nations Funding Arrangement (CFNFA). The CFNFA is the current generic arrangement for multi-departmental funding as represented by the national model introduced in December 1998. The Department believes that the CFNFA will replace and improve upon the FTA, which is already being used for multi-departmental funding.

**10.28** The Department's experience with the development of funding arrangements since 1986 shows that progress has been slow. Officials in one regional office believed that the proposed CFNFA was more restrictive than the FTA and that First Nations were not provided adequate opportunity for input to its design; we reported on this issue in 1996 regarding the FTA. It is too early to conclude whether the CFNFA approach will be effective.

Indian and Northern  
Affairs Canada is  
missing many of the  
self-assessments it  
needs to tailor funding  
arrangements.

## First Nations Self-Assessments of Accountability and Management

**10.29** In 1996, we reported that almost one third of First Nations and tribal councils were in financial difficulty. The Department has recognized the need to respond to the capacity and willingness of First Nations to assume the challenges of greater responsibility and accountability. In this regard, funding arrangements must be tailored to meet the needs of both parties.

**10.30** The Department developed a 40-page self-assessment workbook to be completed by First Nations. A wide range of topics are covered, including community leadership and structures, governance, human resources management, program management and redress.

**10.31** A major purpose of the self-assessment is to provide information necessary to assure Parliament and First Nations that an adequate system of accountability for the delivery of funded programs is in place. Where a self-assessment identifies areas for improvement, a development plan is required to address specific deficiencies.

**10.32** When properly completed and applied, the self-assessments and development plans can also play an important role in managing risks and enhancing First Nations capacity to assume greater responsibilities. The implementation of the development plan becomes a requirement under the funding arrangement. Ultimately, these self-assessments should advance the financial relationship between the parties toward increasing self-governance responsibilities.

**10.33** We therefore expected that:

- the Department would determine the reasonableness of completed self-assessments;

- First Nations would properly approve and authorize their self-assessments;

- adequate development plans would be prepared and applied where indicated; and

- an appropriate database on self-assessments and development plans would be maintained to help measure progress against the objectives of the FTA and other funding arrangements.

### Self-assessment issues

**10.34** In 1996, the Department wrote to First Nations chiefs and councils requesting that they complete an assessment of their accountability and management regimes. In our follow-up, we selected a sample of self-assessments related to the FTA and other funding arrangements. We found inconsistencies in how the Department had determined the reasonableness of the information provided. For example, there was often no evidence that the Department had assured itself that positive responses (those that indicated no deficiencies) were justified. And positive responses were received more often than negative ones. While it should not be necessary for the Department to document a detailed review in every self-assessment, some level of corroboration is needed on a test basis and for high-risk cases.

**10.35** We noted that none of the self-assessments that we reviewed were signed by the First Nations, nor was there evidence in the Department of Band Council Resolutions that could attest to the authority and commitment of the self-assessments provided. In our view, the self-assessments have limited value unless there is evidence that they are accepted and endorsed by First Nations leadership.

**10.36** We further noted that many self-assessments were missing. For example, one departmental region had received completed self-assessments from only 14 of 61 First Nations (23 percent).

**10.37** In another region, about 50 of 130 First Nations (38 percent) had completed self-assessments. In this region, none of the four FTAs with First Nations were supported by self-assessments. Instead, the regional office continued to rely on older assessments that were completed many years earlier and that related to a different type of funding arrangement. In our view, this reliance is inappropriate given the Department's objectives for improved accountability and enhanced capacity building through the FTA. In the absence of departmental data, the Department is unable to determine whether it is relying on potentially obsolete information for other funding arrangements in this region and in other regions.

**10.38** Further, officials in the above-noted region observed that the requirement for self-assessments was poorly managed. They noted that the departmental directive and First Nations guidelines were issued two years after First Nations were formally notified of the requirement to provide self-assessments. Furthermore, in 1998, they were considering the establishment of a project team to deal exclusively with issues such as completion and evaluation of self-assessment reports and negotiation of management development plans for inclusion in funding arrangements.

**10.39** The Department reported that, nationally, 407 of the required 644 self-assessments (63 percent) had been completed by October 1998. Although the Department maintains databases on various activities related to funding arrangements, there is no national database that discloses essential information from the self-assessments received. This should include information by type of funding arrangement, by year in which the self-assessments were prepared, and showing whether a development plan was necessary and completed.

**10.40** Consequently, the Department is unable to determine overall progress in tailoring funding arrangements to the needs of all parties, an issue noted in our 1996 audit.

### Development plans

**10.41** Completed self-assessments are used to prepare development plans. However, it was often questionable whether the plans were sufficiently comprehensive to effectively address the identified deficiencies. For example, in many cases the plan was simply a listing of the negative responses to the assessment questionnaire.

**10.42** We believe that development plans should explicitly identify:

- the nature and extent of the necessary remedial action;
- the expertise needed to achieve this action;
- the approach to be taken; and
- the time frames for completion, and other related matters.

**10.43** Finally, we believe that the Department and First Nations will need to re-examine their experience with self-assessments at appropriate intervals to determine the ongoing effectiveness of the assessments, the reasonableness of the expectations and their compatibility with the needs of First Nations.

### Redress and Accountability

**10.44** In 1996, the Department published certain principles of accountability, including redress. In its guidance to First Nations on how to complete the accountability and management self-assessments, the Department elaborates on redress as a key principle of accountability as follows:

Formalized review and appeal rules and procedures are in existence for operating programs and key governance functions that impact on the rights/entitlements of individuals and/or the community.

**Development plans  
require greater rigour  
to address First  
Nations needs.**

**Funding arrangements  
contain provisions for  
accountability,  
including redress.**

**Effective redress  
includes the adequate  
resolution of  
allegations.**

This means that First Nations and their members will have the opportunity for an objective review and resolution of allegations.

**10.45** The concept is that strong redress mechanisms in First Nations communities will enhance accountability of all parties. The terms and conditions in funding arrangements include redress as a principle of accountability to be followed.

**10.46** The Department considers that its responsibility to manage allegations stems from its role as a major provider of funding to First Nations, and from its obligations under the *Indian Act*. It also believes that under its legislative mandate, there are limits to the actions it may take.

**10.47** Effective redress includes the adequate resolution of allegations. This means that the Department would take proper action, including, where appropriate, referral of the allegations to other parties. The Department recognizes that the ultimate responsibility for addressing an allegation may lie within a First Nation, the Department, another funding agency, or a law enforcement or other investigative authority.

**10.48** A major and challenging departmental decision applicable to every allegation the Department receives is to determine the extent of its responsibility for resolution and where the case should be referred, internally and possibly externally.

**Significance of allegations**

**10.49** The Department reported that it had received over 300 allegations relating to 108 First Nations during the two-year period prior to this follow-up. The allegations relate to such matters as social assistance issues, mismanagement of funds and other concerns. Because departmental data are incomplete, the total reported is the minimum known number of allegations.

**10.50** Allegations can be challenging to resolve. They can be reported for frivolous or politically motivated reasons, or they can be legitimate and have serious consequences for an entire departmental program, for First Nations members and for living conditions on reserves. They may reflect criminal activity or simply managerial negligence without intent to deceive. Serious allegations that are proved could impair the relationship between First Nations and the government.

**10.51** Different types of allegations may require different action. For example, reported issues of non-compliance with a funding arrangement or regulation and alleged deficiencies in program management may require different approaches for disposition. As well, some allegations are best resolved by the First Nation community. Inappropriate disposition of allegations can be detrimental to effective management of funding arrangements and can unnecessarily overburden other agencies.

**10.52** We performed a selective overview of how the Department manages its caseload of allegations. As part of the overview, we examined a sample of allegation files in the Department; however, we did not investigate any allegations, and we do not take a position on any of them. Nor did we review redress practices in First Nations. These are matters for the Department, other authorities and First Nations to act upon.

**Guidelines for managing allegations**

**10.53** In February 1998, the Department issued a national guideline to senior officials on how to deal with allegations. The guideline defines and categorizes the types of allegations, outlines the procedures to be followed, and discusses the importance of departmental follow-up and related matters.

**10.54** There are also draft directives on allegations that have been developed by some departmental regional offices.

**10.55** The way in which an allegation is processed and disposed of will always require careful judgment, which can vary even in similar cases and among different departmental officials. We therefore expected to find departmental guidelines on:

- how to evaluate the merit of an allegation;
- how to decide what additional information is needed;
- who should collect any additional information; and
- how to decide whether the allegation should be resolved by the Department or referred to other authorities or First Nations.

**10.56** Although we found that guidance is given on how to control the flow of documents and communications, there is little guidance on how to evaluate an allegation.

**10.57** We believe that departmental guidelines need to further clarify the responsibilities of the Department and First Nations respecting the determination of merits of an allegation, the nature of the risks, the setting of priorities, the identification of alternative actions, and preventative measures.

#### Information for managing allegations

**10.58** Although some departmental regions maintain a control listing of cases in progress, the Department does not have a national reporting system to help manage allegations. Consequently, it does not have an overall picture of the nature and frequency of allegations that shows:

- the conditions leading to the allegations;
- the areas of high and low risk within and among different First Nations; and
- the impact on accountability and funding arrangements.

**10.59** In response to our request for information on allegations, one regional office reported that it did not know how many allegations it had received during the past two years.

**10.60** Another regional office maintains a listing of allegations but there was no summary report available that disclosed the initial inventory of allegations, the quantity of monthly intake and dispositions, the category of the allegations and programs affected, their ultimate disposition, and the current balance of unresolved allegations and their age. We believe this information is necessary for managing allegations.

**10.61** We further believe that the absence of a national reporting system for allegations and of a self-assessments database makes it more difficult for the Department to obtain the assurance it needs on the validity of the self-assessments and the suitability of the funding arrangements. It is also more difficult to identify where and how redress, and hence accountability, can be enhanced.

**10.62** With respect to the coverage of redress by the self-assessment workbook (see paragraph 10.30), the self-assessment questionnaire contains only one question. This question asks whether a dispute resolution and appeal process to address complaints is in place. In our view, this is a cursory and inadequate attempt to identify and evaluate redress. We believe that additional information on the structure of the redress system, how it is applied, and the safeguards in place needs to be included in the self-assessment questionnaire.

Little guidance has been provided in the Department on how to evaluate an allegation.

### **Allegation cases**

**10.63** We examined a sample of allegations to determine whether case files were active. We did not evaluate the appropriateness of the action or the disposition of the cases.

**10.64** We found that there was activity in most cases in this sample. However, in a region with a large number of cases, it was often difficult to determine what exactly was being done and what was being achieved. This was because of ambiguous file notations that contained unclear references to inquiries and other actions. Because of deficient documentation and the absence of documentation standards, the Department is at risk should it need to demonstrate to other parties that it acted appropriately.

**10.65** We believe that the Department needs to develop and apply an appropriate standard of documentation for use by all regions.

### **First Nations Perspectives on Funding Arrangements**

**10.66** In 1996, we surveyed and reported the opinions of a sample of First Nations on whether funding arrangements with the Department needed to be improved and, if so, how this could be achieved. In this follow-up, we again surveyed a sample of First Nations, including those that had responded to the 1996 survey. For the most part, both surveys contained identical questions.

**10.67** Thirty-eight First Nations responded to this survey (forty in 1996). In both surveys, we received responses from several regions and from different-sized communities, and they related to different types of funding arrangements.

**10.68** No audit of the survey responses was performed and, since the opinions provided by the respondents do not necessarily reflect the opinions of those

who did not respond or who were not surveyed, no generalizations can be made. However, we believe that the views presented below provide valuable perspectives that need to be considered in the evolving financial relationship between the government and First Nations.

**10.69** Of the 38 First Nations who responded, 25 believe that their current funding arrangements (FTA and others) meet their needs for flexibility in allocating funds and in implementation; 33 stated that the terms and conditions of their funding arrangements were clear and reasonable.

**10.70** However, 15 First Nations believed that they did not have sufficient input to the terms and conditions; 14 stated that improvement was needed in the co-ordination of funding across federal departments; 11 believed that the Department's reporting requirements were overly burdensome.

**10.71** Other comments include the following:

- "There was really no other choice than the FTA, which we felt was forced on us."
- "It would be important for Indian and Northern Affairs Canada to involve First Nations communities in the design of new funding arrangements that would allow for the proper reporting of results. This would help remove current fears and negative perceptions that First Nations have about the Department's unilateral approach on this issue. The FTA agreement has its benefits and limitations and it is important for First Nations to be well informed and prepared before considering this funding agreement."
- "Need more clearly defined reporting requirements..."
- "The clauses on accountability in the funding arrangement are reasonable but implementation by First Nations and verification by the federal government is sometimes weak."

**10.72** Overall, the perspectives are not substantially different from those we reported in 1996. The variety of views,

both positive and negative, continues to imply that funding arrangements need to be tailored to meet the different needs of First Nations as well as those of the Department. We would expect this need to be addressed as the Department continues to implement its initiatives for improvement.

## Conclusion

**10.73** Indian and Northern Affairs Canada has taken action to address our 1996 recommendations and is committed to ongoing improvements. More rigorous attention is still needed, however, in better matching the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for funds provided. In addition, the Department's role with respect to redress needs to be clarified, and guidelines on the management and disposition of allegations further developed.

**10.74** The Department will also need to develop an appropriate database for First Nations self-assessments and a national reporting system for allegations.

**10.75** We believe that if improvements to funding arrangements are not achieved, it will be more difficult for the Department to successfully manage the risks associated with them, such as the risk of failing to improve living conditions on reserves in a cost-effective way. As well, the ability of some First Nations to strengthen their capacity to become more self-reliant will be hindered.

**Department's response:** *The Auditor General acknowledges the Department's continuing efforts to address the 1996 recommendations. In particular, the Department accepted that First Nations input needed to be considered in addressing the most appropriate type of funding arrangements. This is consistent with Gathering Strength – Canada's Aboriginal Action Plan, which commits this department and other federal departments to work with Aboriginal*

*peoples and governments to build a renewed partnership and a new fiscal relationship. Accordingly, the Department has adopted a plan to consult extensively with First Nations and other government departments over the next year on the Canada/First Nations Funding Agreement. This agreement will be introduced gradually, commensurate with First Nations acceptance and capacity to manage under this type of multi-year funding arrangement. As well, the Department will increase the level of effort required to complete the management and accountability assessments and attendant development plans. The Department is encouraged to note that of the 38 First Nations that responded to the survey, 25 (66 percent) felt that their current funding arrangements met their needs for flexibility in allocating funds and 33 (87 percent) felt that the terms and conditions of their funding arrangements were clear and reasonable.*

*As reported in the 1996 audit, the Department introduced the accountability principles of transparency, disclosure and redress. These have been accepted by First Nations and have been incorporated into all funding arrangements. In the context of the accountability framework required by First Nations, redress means an internal mechanism or process whereby citizens can appeal decisions affecting them. The Department's view is that the Auditor General has broadened the scope of this follow-up audit (vis-à-vis redress) well beyond the context of the original 1996 audit by investigating how the Department manages allegations, many of which are unrelated to the management of funding arrangements. Nevertheless, the Department is presently considering the need for a national reporting system and will give due consideration to the observations concerning allegations, which have been included under the section of this chapter entitled Redress and Accountability.*

**Indian and Northern  
Affairs Canada needs  
to improve funding  
arrangements to  
manage risks and  
enhance self-reliance  
of First Nations.**



## About the Follow-up

### Objective

The objective of this follow-up was to determine the progress made by Indian and Northern Affairs Canada in implementing the recommendations made in our 1996 Report Chapter 33, Funding Arrangements for First Nations.

### Scope

The follow-up concentrated on:

- the implementation of the new Financial Transfer Arrangement (FTA);
- the co-ordination of funding to First Nations with other federal entities;
- the completion of First Nations self-assessments of their management and accountability regimes and the use of such assessments by the Department; and
- the development and application of certain accountability principles, such as redress.

The follow-up was performed in four departmental regions that were responsible for planned contributions totalling about \$2 billion to First Nations and other recipients during 1998–99. This represents about 60 percent of the total planned contributions of all regions for the year.

In addition to reviewing selected departmental initiatives, we examined 14 FTAs. At the time of our follow-up, these arrangements had an estimated value of more than \$500 million over their terms, which in some cases was five years.

We also reviewed 22 First Nations self-assessments of their accountability and management regimes, including those applicable to the FTAs and other funding arrangements. Further, we inquired into redress practices in all nine departmental regions and reviewed 25 allegations files selected from four regions.

In addition, we obtained the written perspectives of a sample of First Nations on funding arrangements currently in use.

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